Supreme Court, U.S.
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No. ____

IN THE

Supreme Court of the United States

POWEREX CORP.,
Petitioner,

v.

RELIANT ENERGY SERVICES, INC., ET AL.,
Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

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APPENDIX TO PETITION FOR A WRIT OF CERTIORARI

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July 15, 2005

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UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

No. 02-57200
(D.C. No. CV-02-01001-RHW)

PEOPLE OF THE STATE OF CALIFORNIA, ET AL.,
Plaintiffs,

ARIZONA ELECTRIC POWER COOPERATIVE, INC., ET AL.,
Intervenor,

v.

NRG ENERGY INC., ET AL.,
Defendants,

v.

RELIANT ENERGY SERVICES, INC., ET AL.,
Cross-claimants-Appellants,

v.

ARIZONA ELECTRIC POWER COOPERATIVE, INC., ET AL.,
Cross-defendants-Appellees.

No. 02-57202
(D.C. No. CV-02-00990-RHW)

PEOPLE OF THE STATE OF CALIFORNIA, ET AL.,
Plaintiffs-Appellees,

v.

NRG ENERGY, INC., ET AL.,
Defendants,

v.

RELIANT ENERGY SERVICES, INC., ET AL.,
Cross-claimants-Appellants,

v.

ARIZONA ELECTRIC POWER COOPERATIVE, INC., ET AL.,
Cross-defendants,

AND

BONNEVILLE POWER ADMINISTRATION, ET AL.,
Cross-defendants-Appellees.

No. 02-57210
(D.C. No. CV-02-01000-RHW)

NRG ENERGY, INC., ET AL.,
Defendants,

AND

RELIANT ENERGY SERVICES, INC., ET AL.,
Defendants-Appellants,

v.

DUKE ENERGY TRADING AND MARKETING, LLC, ET AL.,
Cross-claimants,

v.

ARIZONA PUBLIC SVC, ET AL.,
Cross-defendants-Appellees.

No. 03-55118
(D.C. No. CV-02-01000-RHW)

NRG ENERGY, INC., ET AL.,
Defendants,

v.

DUKE ENERGY TRADING AND MARKETING, LLC, ET AL.,
Cross-claimants-Appellees,

v.

ARIZONA PUBLIC SVC, ET AL.,
Cross-defendants,

AND

POWEREX CORP.,
Cross-defendant-Appellant.

No. 03-55131
(D.C. No. CV-02-00990-RHW)

PEOPLE OF THE STATE OF CALIFORNIA, ET AL.,
Plaintiffs,

v.

NRG ENERGY, INC., ET AL.,
Defendants,

v.

RELIANT ENERGY SERVICES, INC., ET AL.,
Cross-claimants-Appellees,

v.

ARIZONA ELECTRIC POWER COOPERATIVE, INC., ET AL.,
Cross-defendants,

AND

POWEREX CORP.,
Cross-defendant-Appellant.

No. 03-55176
(D.C. No. CV-02-01001-RHW)

NRG ENERGY, INC., ET AL.,
Defendants-Appellees,

v.

RELIANT ENERGY SERVICES, INC., ET AL.,
Cross-claimants-Appellees,

v.

ARIZONA ELECTRIC POWER COOPERATIVE, INC., ET AL.,
Cross-defendants,

AND

POWEREX CORP.,
Cross-defendant-Appellant.

No. 03-55241
(D.C. No. CV-02-01000-RHW)

NRG ENERGY, INC., ET AL.,
Defendants,

v.

DUKE ENERGY TRADING AND MARKETING, LLC, ET AL.,
Cross-claimants-Appellants,

v.

ARIZONA PUBLIC SVC, ET AL.,
Cross-defendants-Appellees.

No. 03-55249
(D.C. No. CV-02-01001-RHW)

NRG ENERGY, INC., ET AL.,
Defendants,

AND

DUKE ENERGY TRADING AND MARKETING, LLC, ET AL.,
Defendants -Appellants,

v.

RELIANT ENERGY SERVICES, INC., ET AL.,
Cross-claimants,

v.

ARIZONA ELECTRIC POWER COOPERATIVE, INC., ET AL.,
Cross-defendants-Appellees.

No. 03-55266
(D.C. No. CV-02-00990-RHW)

PEOPLE OF THE STATE OF CALIFORNIA, ET AL.,
Plaintiffs-Appellees,

v.

NRG ENERGY, INC., ET AL.,
Defendants,

AND

DUKE ENERGY TRADING AND MARKETING, LLC, ET AL.,
Defendants-Appellants,

v.

RELIANT ENERGY SERVICES, INC., ET AL.,
Cross-claimants,

v.

ARIZONA ELECTRIC POWER COOPERATIVE, INC., ET AL.,
Cross-defendants.

No. 03-55319
(D.C. No. CV-02-01000-RHW)

NRG ENERGY, INC., ET AL.,
Defendants,

v.

DUKE ENERGY TRADING AND MARKETING, LLC, ET AL.,
Cross-claimants-Appellees,

v.

ARIZONA PUBLIC SVC, ET AL.,
Cross-defendants,

AND

BONNEVILLE POWER ADMINISTRATION, ET AL.,
Cross-defendants-Appellants.

No. 03-55322
(D.C. No. CV-02-01001-RHW)

NRG ENERGY, INC., ET AL.,
Defendants,

v.

RELIANT ENERGY SERVICES, INC., ET AL.,
Cross-claimants-Appellees,

v.

ARIZONA ELECTRIC POWER COOPERATIVE, INC., ET AL.,
Cross-defendants,

AND

BONNEVILLE POWER ADMINISTRATION, ET AL.

No. 03-55349
(D.C. No. CV-02-00990-RHW)

PEOPLE OF THE STATE OF CALIFORNIA, ET AL.,
Plaintiffs- Appellees,

v.

NRG ENERGY INC., ET AL.,
Defendants,

v.

RELIANT ENERGY SERVICES, INC., ET AL.,
Cross-claimants-Appellees,

v.

ARIZONA ELECTRIC POWER COOPERATIVE, INC., ET AL.,
Cross-defendants

AND

BONNEVILLE POWER ADMINISTRATION, ET AL.,
Cross-defendants-Appellants.

Appeal from the United States District Court
for the Southern District of California,
Robert H. Whaley, U.S. District Judge, Presiding

[Argued June 14, 2004]

[Decided Dec. 8, 2004]

Before: SCHROEDER, Chief Judge, CANBY, and TALLMAN, Circuit Judges.

SCHROEDER, Chief Judge:

The fundamental question in this appeal from a district court order of remand is whether we have appellate jurisdiction in light of the limitations of 28 U.S.C. § 1447(d). We hold that we have jurisdiction to review the district court's ruling on substantive issues of controlling law on the merits of the case. We affirm all of the district court's rulings on those substantive issues, relating principally to

immunity, but hold that the claims against the U.S. government agencies should have been dismissed rather than remanded to state court.

BACKGROUND

The underlying consolidated actions are suits arising from the energy crisis of 2000-2001. *See generally Duke Energy Trading & Marketing, L.L.C. v. Davis*, 267 F.3d 1042 (9th Cir.2001). As a result of the crisis, the State of California, together with some of its private and corporate citizens, filed suits in California state courts against Reliant Energy, Duke Energy and other generators of power in the California energy market (collectively referred to as "Duke and Reliant"). The Plaintiffs alleged that Defendants conspired to fix prices of wholesale electricity in violation of California's Cartwright Act, Cal. Bus. & Prof. Code § 16720, *et. seq.*, and California's Unfair Competition Law, *id.* at § 17200.

Duke and Reliant filed cross-claims in the state court seeking indemnity from two agencies of the United States government, Bonneville Power Administration, ("BPA"), and Western Area Power Administration, ("WAPA"), and from two Canadian entities, PowerEx Corporation, ("PowerEx"), and British Columbia Hydro and Power Authority, ("BC Hydro"). Both BPA and WAPA are agencies of the United States Government statutorily authorized to promote the development, sale, and distribution of electric power in the western United States. *See* 16 U.S.C. § 832; 42 U.S.C. § 7152, 43 U.S.C. §§ 389, 485(h); *see also United States by W. Area Power Admin. v. Pac. Gas & Elec. Co.*, 714 F.Supp. 1039, 1045-47 (N.D.Cal.1989). BC Hydro is a crown corporation of the Canadian province of British Columbia created by the British Columbia Hydro and Power Authority Act of 1964. PowerEx is a wholly owned subsidiary of BC Hydro. PowerEx markets and exports surplus Canadian hydropower to the United States.

Each of the cross-defendants removed the cases to federal court. As the basis for removal, BPA and WAPA invoked 28 U.S.C. § 1442(a), which permits removal by fed-

eral agencies. BC Hydro and PowerEx invoked 28 U.S.C. § 1441(d), which allows removal by foreign states as defined by the Foreign Sovereign Immunity Act ("FSIA"), 28 U.S.C. § 1603(a). California then moved the district court for remand. BPA and WAPA opposed the remand, arguing that they were entitled to be dismissed from the action because they enjoyed sovereign immunity as agencies of the U.S. government. BC Hydro argued for dismissal on the ground that it was an immune foreign sovereign as defined by the FSIA. PowerEx opposed California's motion for remand on the ground it was entitled to remove under the removal statutes 28 U.S.C. § 1441(a)(d) and the Foreign Sovereign Immunities Act, 28 U.S.C. § 1603(a). PowerEx did not argue for sovereign immunity because the claim arises from commercial activities PowerEx conducted within the United States. *See* 28 U.S.C. § 1605(a)(2).

The district court ruled first on the immunity arguments. The court held that BC Hydro was entitled to foreign sovereign immunity under the FSIA as a crown corporation of British Columbia. As to the U.S. government agencies, Duke and Reliant contended BPA and WAPA had waived their immunity. The district court held that there had been no waiver because only Congress could waive immunity and Congress had not done so. It therefore held that the WAPA and BPA were immune from suit. Finally, the district court held that PowerEx was not entitled to removal because it was not the instrumentality of a foreign sovereign. Then the district court granted the earlier motion to remand the entire case.

Defendants-appellants, Duke and Reliant, now appeal, challenging the district court's holdings that BPA and WAPA have not waived their sovereign immunity, and that BC Hydro is immune from suit. Cross-appellants, BPA and WAPA, challenge the district court's decision to remand the entire case to state court, contending that the district court should first have dismissed them from the suit. Cross-appellant, PowerEx, challenges the district

court's ruling that it is not a sovereign as defined by the FSIA.

Plaintiff-appellee, California, happy to be back in state court, contends that this court is without jurisdiction to hear any of these appeals. It argues that 28 U.S.C. § 1447(d) prohibits the exercise of appellate jurisdiction over the district court's order of remand and that we therefore cannot review the substantive issues of law the district court resolved.

We first deal with the issue of appellate jurisdiction. We conclude that we have jurisdiction to review the underlying merits of the district court's substantive rulings on immunity and sovereign status. We then turn to the merits of those rulings.

APPELLATE JURISDICTION

The district court's final order that is on appeal to this court remands the case to state court following its original removal to federal court. Section 1447(c) provides that a motion for remand for procedural irregularities in the removal must be filed within 30 days and that a case may be remanded at any time if it appears that the district court lacks subject matter jurisdiction.[1]

Appellate review of a remand order pursuant to § 1447(c) is limited by the provisions of § 1447(d). Section 1447(d) provides:

> (d) An order remanding a case to the State court from which it was removed is not reviewable on appeal or otherwise, except that an order remanding a case to the State court from which it was removed pursuant to section 1443 of this title shall be reviewable by appeal or otherwise.

---

[1] Section 1447(c) provides:

> c) A motion to remand the case on the basis of any defect other than lack of subject matter jurisdiction must be made within 30 days after the filing of the notice of removal under section 1446(a). If at any time before final judgment it appears that the district court lacks subject matter jurisdiction, the case shall be remanded.

The limitation relates on its face only to appellate review of federal jurisdiction or of whether the remand order itself was procedurally correct. Our court has therefore recognized that the limitations on review in § 1447(d) do not preclude our review of substantive issues of law that may have preceded the remand order. We have said that § 1447(d) "preclude[s] only appellate review of remand orders based on one of the two grounds listed in subsection 1447(c): lack of subject matter jurisdiction or removal procedure irregularities." *United Investors Life Ins. Co. v. Waddell & Reed*, 360 F.3d 960, 963 (9th Cir.2004), *citing Things Remembered, Inc. v. Petrarca*, 516 U.S. 124, 127-28, 116 S.Ct. 494, 133 L.Ed.2d 461 (1995). Section 1447(d) does not preclude our review of a district court's resolution of substantive issues on the merits, apart from issues of jurisdictional or procedural defects leading to remand. *See Abada v. Charles Schwab & Co.*, 300 F.3d 1112, 1118 (9th Cir.2002), *citing Clorox Co. v. United States Dist. Ct.*, 779 F.2d 517, 520 (9th Cir.1985) and *Pelleport Investors, Inc. v. Budco Quality Theatres, Inc.*, 741 F.2d 273, 276-77 (9th Cir.1984).

Moreover, the district court had jurisdiction over this case because BPA, WAPA and BC Hydro properly removed the case from state court. Such a removal removes the *entire* case, not merely the portion affecting the removing sovereign. *See IMFC Professional Services of Fla., Inc. v. Latin American Home Health, Inc.*, 676 F.2d 152, 158-59 (5th Cir.1980); *Nolan v. Boeing Co.*, 919 F.2d 1058, 1064-65 (5th Cir.1990). The district court accordingly did not lack jurisdiction to decide the issues of immunity of BPA, WAPA and BC Hydro and of the sovereign status of PowerEx. We accordingly are not deprived by § 1447(d) of jurisdiction to review these substantive rulings, and we now address them on their merits.

IMMUNITY OF THE U.S. AGENCIES: BPA AND WAPA

Reliant and Duke argue that the federal agencies waived their immunity by acting as generators, buyers, and sellers of electricity in the California energy markets. Specifically, Duke and Reliant contend that by agreeing to the Federal Energy Regulatory Commission, ("FERC"), tariff governing the California market, BPA and WAPA were bound by the provisions of the tariff. Under the tariff, participants in the California energy market "irrevocably waive any objection" to the jurisdiction of California courts over legal actions arising from the tariff. In essence, Duke and Reliant contend that by performing their statutory function to provide power to the western markets, BPA and WAPA became "participants" in that market within the meaning of FERC tariffs and thereby waived their governmental immunity.

The district court rejected the arguments of Duke and Reliant and concluded that BPA and WAPA did not waive their sovereign immunity. This ruling was correct because only Congress can waive immunity of a federal governmental agency and BPA and WAPA are indisputably such agencies.

In *Lane v. Pena*, 518 U.S. 187, 116 S.Ct. 2092, 135 L.Ed.2d 486 (1996), the Supreme Court unambiguously reaffirmed that "[a] waiver of the Federal Government's sovereign immunity must be unequivocally expressed [by Congress] in statutory text." *Id.* at 192, 116 S.Ct. 2092. Duke and Reliant point to no such text waiving the immunity of BPA or WAPA. Nor is there a statute waiving the sovereign immunity of BPA or WAPA with regard to suits for indemnity. *See* 16 U.S.C. § 832; 43 U.S.C. § 390uu; *see also City of Tacoma v. Richardson*, 163 F.3d 1337, 1339-41 (Fed.Cir.1998) (interpreting section 390uu and holding Congress has waived WAPA's sovereign immunity only with regard to contracts executed pursuant to federal reclamation law). The district court correctly concluded that BPA and WAPA retain their sovereign immunity.

IMMUNITY OF BC HYDRO UNDER THE FSIA

The district court held that BC Hydro was an immune foreign sovereign as defined by the Foreign Sovereign Immunities Act and was therefore not amenable to suit by Duke and Reliant. Under the FSIA, BC Hydro waived its foreign sovereign immunity if it: 1) conducted commercial activity in the U.S., or 2) engaged in commercial activity outside the U.S. having a "direct effect" in the United States. 28 U.S.C. § 1605(a)(2). Duke and Reliant argue that BC Hydro did both.

Duke and Reliant first argue that BC Hydro activity in Canada had a direct effect on California energy markets. They claim that BC Hydro made decisions that restricted how and with whom PowerEx, BC Hydro's exporting subsidiary, could trade. Because BC Hydro's decisions determined who in the California market received energy from PowerEx and at what price, Duke and Reliant claim that BC Hydro directly affected that market. Duke and Reliant also claim that BC Hydro's credit decisions were themselves commercial activities and therefore caused BC Hydro to forfeit its immunity.

A "direct effect" in the United States must follow "as an immediate consequence of [the otherwise immune defendant's] activity." *Argentina v. Weltover*, 504 U.S. 607, 618, 112 S.Ct. 2160, 119 L.Ed.2d 394 (1992). The actions of BC Hydro did not cause direct effects in the United States within the meaning of the FSIA. Although the credit decisions of BC Hydro had a direct effect on PowerEx, it was only the decisions of PowerEx that directly affected the California markets. Because the credit decisions affected an intermediary, whose actions in turn affected the U.S., the decisions did not have direct effects within the United States. *See Corzo v. Banco Central De Reserva Del Peru*, 243 F.3d 519, 525 (9th Cir.2001).

Duke and Reliant also contend that BC Hydro lacks immunity in the case because its decisions about how to generate power and about how much power PowerEx could sell to the California markets were commercial acts with

direct effects in the U.S. The district court correctly held, however, that these decisions were sovereign functions, not commercial ones. BC Hydro is responsible for decisions relating to, for example, flood control, management of fisheries, and construction of dams. These are governmental responsibilities, unlike any responsibilities of a private, commercial actor. The ability to make decisions about the management of natural resources is a uniquely sovereign capacity. *See MOL, Inc. v. People's Republic of Bangladesh*, 736 F.2d 1326, 1329 (9th Cir.1984).

Next, appellants argue that PowerEx is the agent of BC Hydro and that BC Hydro waived its immunity by and through the conduct of its agent. The district court correctly held that there was no agency relationship between BC Hydro and PowerEx. Independence is to be presumed. In *First National City Bank v. Banco Para El Comercio Exterior De Cuba*, 462 U.S. 611, 103 S.Ct. 2591, 77 L.Ed.2d 46 (1983) ("*Bancec*"), the Supreme Court announced that "government instrumentalities established as juridical entities distinct and independent from their sovereign should normally be treated as such." *Id.* at 626-27, 103 S.Ct. 2591. The presumption of independence is defeated only "where a corporate entity is so extensively controlled by its owner that a relationship of principal and agent is created." *Id.* at 629, 103 S.Ct. 2591; *see also Flatow v. Islamic Republic of Iran*, 308 F.3d 1065, 1070-71 (9th Cir.2002).

As the district court carefully explained, no evidence suggests that BC Hydro exerted the day-to-day control over PowerEx that would demonstrate an agency relationship. *Cf. Flatow*, 308 F.3d at 1071-73 (noting absence of a showing of day-to day-control and rejecting agency argument). BC Hydro undoubtedly cooperated with PowerEx to establish PowerEx's credit risk policies and to provide PowerEx with administrative and other support for its operations. As the Supreme Court has noted, however, it is not at all remarkable for a parent organization to supervise the "finance and capital budget decisions" and to be

responsible for the "articulation of general policies and procedures" for a subsidiary. *United States v. Bestfoods*, 524 U.S. 51, 72, 118 S.Ct. 1876, 141 L.Ed.2d 43 (1998). These areas of cooperation are completely characteristic of a parent-subsidiary operation, and not at all like a principle-agent relationship. The district court correctly concluded that PowerEx was not the agent of BC Hydro.

For all of the foregoing reasons, BC Hydro did not waive its sovereign immunity under the FSIA.

SOVEREIGN STATUS OF POWEREX UNDER THE FSIA

In its cross-appeal PowerEx argues that the district court erred in holding that it is not a foreign sovereign under the FSIA, and that it therefore is not entitled to remove under § 1441(d). The statute defines a foreign sovereign as including "an agency or instrumentality of a foreign state." 28 U.S.C. § 1603(a). An agency or instrumentality is defined as any entity:

> (1) which is a separate legal person, corporate or otherwise, and
>
> (2) which is an organ of a foreign state or political subdivision thereof, or a majority of whose shares or other ownership interest is owned by a foreign state or political subdivision thereof, and
>
> (3) which is neither a citizen of a State of the United States as defined in section 1332(c) and (d) of this title, nor created under the laws of any third country.

28 U.S.C. § 1603(b). PowerEx argues that it is a foreign sovereign both because it is an "organ" of a foreign state and alternatively because it is wholly owned by a foreign state.

In support of its contention that PowerEx is an organ of Canada, PowerEx cites this court's recent decision in *EIE Guam Corporation v. Long Term Credit Bank of Japan*, 322 F.3d 635, 640-41 (9th Cir.2003). In *EIE Guam*, we held that a Japanese corporation was an organ of Japan where that corporation (RCC) was created to collect and

administer bad debts of failed financial institutions insured by the Deposit Insurance Corporation of Japan. *Id.* at 640.

PowerEx argues that just as RCC served a public purpose in helping to manage the debts of failed Japanese banks, PowerEx serves a public purpose in maximizing the value of the Province's surplus hydropower. This is the only material similarity, however. There are substantial differences between PowerEx and RCC. In *EIE Guam*, the district court found that many of RCC's functions were exclusive, that other companies were not permitted to take similar actions, that RCC was funded by the Japanese government, and that the government even compensated RCC for its financial losses. *See id.* at 640.

In contrast, the district court here found that PowerEx acted not in the public interest, but rather as an independent commercial enterprise pursuing its own profits. The district court also found that any profits and losses from its sales of power are solely the responsibility of PowerEx and are in no way guaranteed or subsidized by the government. The Canadian government does not immunize PowerEx from suit.

We have said that the ultimate question is "whether the entity engages in a public activity on behalf of the foreign government." *Patrickson v. Dole Food Co.*, 251 F.3d 795, 807 (9th Cir.2001), *aff'd on other grounds Dole Food Co. v. Patrickson*, 538 U.S. 468, 123 S.Ct. 1655, 155 L.Ed.2d 643 (2003). Applying *Patrickson*, we look to the purposes of an entity's activities, the entity's independence from government, the level of financial support received from the government, and the entity's privileges and obligations under the law. *Patrickson*, 251 F.3d at 807.

As the district court correctly noted, the facts of this case closely mirror the facts of *Patrickson* and compel our conclusion that PowerEx is not an organ of a foreign government. In *Patrickson*, as here, the party claiming organ status under the FSIA was not run by government appointees, was not staffed with civil servants, was not

wholly owned by the government, was not immune from suit, and did not exercise any regulatory authority. *See Patrickson*, 251 F.3d at 808. Even though PowerEx offers some evidence that it serves a public purpose, its high degree of independence from the government of British Columbia, combined with its lack of financial support from the government and its lack of special privileges or obligations under Canadian law dictate our holding that PowerEx is not an organ of British Columbia.

PowerEx also argues that it qualifies under the FSIA because it is owned by the Province of British Columbia. PowerEx concedes, however, that its shares are owned by BC Hydro. The Supreme Court has held that "only direct ownership of a majority of shares by the foreign state satisfies the statutory requirement [of the FSIA]." *Dole Food*, 538 U.S. at 474, 123 S.Ct. 1655. The Court noted that formalities are essential in the law of corporations and that unless the foreign government itself actually owns the shares, the entity does not meet the definition of a foreign state. *Id.* at 474-76, 123 S.Ct. 1655. PowerEx is not owned by the Province but by BC Hydro. It is therefore not a foreign instrumentality under FSIA.

THE REMAND OF CLAIMS AGAINST THE UNITED STATES

In their cross-appeal, BPA and WAPA argue that although the district court correctly held them immune from suit, it incorrectly failed to dismiss the claims against them. They are correct.

Section 1442(a) guarantees federal agencies a federal forum in which to adjudicate claims. Where it is immune from suit, a federal agency's right to a federal forum is vindicated only by the district court's dismissal of the claims against the agency. Any other outcome would frustrate the purpose of § 1442(a).

We have previously held that where federal law prevents state and federal courts from subjecting a federal agency to suit, a district court presented with such a suit

is required to dismiss it. *See Nebraska v. Bentson*, 146 F.3d 676, 679 (9th Cir.1998). The same result is required here. We therefore remand the claims against BPA and WAPA with instructions to dismiss them.

CONCLUSION

We AFFIRM the district court's decision that BC Hydro is an immune foreign sovereign under the Foreign Sovereign Immunities Act, but that its export subsidiary, PowerEx, is not such a sovereign or instrumentality of a sovereign. We also AFFIRM the district court's order that BPA and WAPA are immune from suit. We VACATE the portion of the district court's order remanding the claims against BPA and WAPA and instruct the district court to enter an order of dismissal.

AFFIRMED IN PART; VACATED IN PART and REMANDED. Costs are awarded to BPA, WAPA, and BC Hydro and against PowerEx.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

Coordination Proceeding Special Title (Rule 1550(b))

WHOLESALE ELECTRICITY ANTITRUST CASES I & II

Nos. CV 02-0990-RHW
CV 02-1000-RHW
CV 02-1001-RHW

This Document relates to:
ALL ACTIONS

RELIANT ENERGY SERVICES, INC., ET AL.,
Defendants and Cross-Complaints,

v.

ARIZONA ELECTRIC POWER COOPERATIVE, INC., ET AL.,
Cross-Defendants.

ORDER GRANTING MOTION TO REMAND

Before the Court is Plaintiffs' Motion to Remand and Motion to Strike and/or Sever Cross-Complaints (Ct. Rec. 58). A hearing was held on September 19, 2002 in San Diego, California. Plaintiffs, Defendants, and Cross-Defendants were present and represented by counsel.

PROCEDURAL BACKGROUND

The Court is familiar with these consolidated cases, as a lengthy procedural history predates the present motion. The first of these actions was filed in California state court on November 27, 2000. Subsequently, five additional actions were filed. The Defendants removed each of the actions to federal court on the grounds that the Federal Power Act completely preempted Plaintiffs' claims. On July 31, 2001, this Court remanded the actions back to the

California superior courts. *See Hendricks v. Dynergy Power Mktg., Inc.*, 160 F. Supp. 2d 1155 (S.D. Cal.2001).

On April 22, 2002, Defendants Reliant Energy Services, Inc. ("Reliant") and Duke Energy Trading and Marketing, L.L.C. ("Duke") filed cross-complaints, asserting causes of action for declaratory relief and indemnity, and naming as cross-defendants, *inter alia*, two federal agencies – the Bonneville Power Administration ("BPA") and the Western Area Power Administration ("WAPA") – and Powerex Corporation ("Powerex"), a corporation allegedly owned indirectly by the Province of British Columbia, Canada. The Reliant cross-complaint also named as cross-defendants two entities owned directly by foreign states – British Columbia Hydro and Power Authority ("BC Hydro"), owned by the Province of British Columbia, Canada, and the Comision de Federale Electricidad, a public agency of Mexico.[2]

On May 21, 2002, the cross-claim Defendants removed the actions to federal court. (Ct. Rec. 1.) BC Hydro removed the actions under 28 U.S.C. § 1441(d), which allows a foreign state to remove a civil action filed against it in state court to federal court. Two days later, BPA filed a Notice of Additional Ground for Removal, invoking 28 U.S.C. § 1442(a)(1) as grounds for removal. (Ct. Rec. 3.) Section 1142(a)(1) allows the United States, or one of its agencies, to remove a civil action filed against it in state court to federal court. Plaintiffs now move to remand those actions to the state courts from whence they came or, in the alternative, strike and/or sever the cross-complaints.

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[2] The Court notes that the Comision de Federale Electricidad has not moved to remove this case to federal court. As such, this Court will not address whether it has subject matter jurisdiction over it. *See* § 1441(d).

DISCUSSION

I. Subject Matter Jurisdiction Over the Removed Actions

None of the parties contend that the cross-claimants could not remove these actions under the provisions of 28 U.S.C. §§ 1441 and 1442. Rather, Plaintiffs argue that the Court lacks jurisdiction over the removed actions and, as such, they must be remanded. The issue hinges, then, on the Court's jurisdictional authority to hear the removed claims, not whether the actions were properly removed in the first instance.

A. Jurisdiction Over the "Foreign State" Cross-Defendants

28 U.S.C. § 1441(d) allows a "foreign state" to remove an action brought in state court to federal court.[3] The Federal Sovereign Immunities Act ("FSIA") defines a foreign state as:

> (a) A "foreign state". . . includes a political subdivision of a foreign state or an agency or instrumentality of a foreign state as defined in subsection (b).
>
> (b) An "agency or instrumentality" of a "foreign state" means any entity –
>
> > (1) which is a separate legal person, corporate or otherwise, and
> >
> > (2) which is an organ of a foreign state or political subdivision thereof, or a majority of whose shares or other ownership interest is owned by a foreign state or political subdivision thereof. . .

28 U.S.C. § 1603.

FSIA immunizes foreign states and their instrumentalities from the jurisdiction of the United States courts

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[3] In pertinent part, 28 U.S.C. § 1441(d) provides that "[a]ny civil action brought in a State court against a foreign state as defined in section 1603(a) of this title may be removed by the foreign state [to federal court]." *See* 28 U.S.C. § 1441(d).

unless the matter falls within one of the statutory exceptions to sovereign immunity under the Act. *See id.*; *see also Security Pac. Nat'l Bank v. Derderian*, 872 F.2d 281, 283 (9th Cir. 1989). In regard to Plaintiffs' remand motion, the only relevant exception is the "commercial activity" exception contained in 28 U.S.C. § 1605(a)(2). That exception states in relevant part:

> (a) A foreign state shall not be immune from the jurisdiction of courts of the United States or of the States in any case . . .
>
> > (2) in which the action is based upon a *commercial activity carried on in the United States* by the foreign state; or upon an act performed in the United States in connection with a commercial activity of the foreign state elsewhere; or upon an act outside the territory of the United States in connection with a commercial activity of the foreign state elsewhere and that act causes a *direct effect* in the United States . . .

28 U.S.C. § 1605(a)(2) (emphasis added). Thus, federal jurisdiction over a foreign party does not attach until the Court determines that the foreign sovereign lacks immunity from jurisdiction under the provisions of FSIA. *See Derderian*, 872 F.2d at 283-284. If the Court has jurisdiction over any one of the foreign sovereigns, then it has jurisdiction over the entire case. *See* 28 U.S.C. § 1441(d); *see also Teledyne, Inc. v. Kone Corp.*, 892 F.2d 1404, 1407 (9th Cir. 1989).

1. BC Hydro

Because BC Hydro is a corporation wholly-owned by a political subdivision of a foreign government, all of the parties agree that it qualifies as a "foreign state" under § 1603 of the FSIA. *See* 28 U.S.C. § 1603(a). Thus, the sole question is whether BC Hydro is entitled to sovereign immunity because none of the statutory exceptions apply.

The only exception to immunity that the parties contend is potentially relevant to BC Hydro is the "commercial ac-

tivity" exception included in 28 U.S.C. § 1605(a)(2). As noted, BC Hydro does not enjoy immunity under that exception if Defendant's cross-claims are based upon either (1) a commercial activity carried out by BC Hydro in the United States, or (2) a commercial activity BC Hydro engaged outside the United States that had a "direct effect" in the United States.[4] *See id.*

Beginning with the first portion of the commercial activity exception – "a commercial activity carried out in the United States" – the FSIA defines this phrase to mean "commercial activity carried on by [a foreign] state and having substantial contact with the United States." 28 U.S.C. § 1603(e). This definition, therefore, has two parts. First, there must be commercial activity, which the FSIA further defines as "either a regular course of commercial conduct or a particular commercial transaction or act." *Id.* at § 1603(d). Second, that commercial activity must have "substantial contact" with the United States.

Both Plaintiffs and Cross-Defendant BC Hydro allege that BC Hydro never has carried out any commercial activity in the United States. Defendants, on the other hand, assert two manners in which BC Hydro supposedly did, indeed, carry out such commercial activity. First, Defendants assert that BC Hydro sold power directly into California on its own behalf. Second, Defendants claim that BC Hydro sold power into California though its agent, Powerex, which they, in turn, argue satisfies the "commercial activity" exception.

The parties dispute who carries the burden of proof that an exception under the FSIA applies. The Ninth Circuit has made clear, however, that once a plaintiff offers evidence that a FSIA exception applies, the party claiming immunity bears the burden of proving, by a preponderance of the evidence, that the exception does not apply.

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[4] None of the parties implicate the exception for acts "performed in the United States in connection with a commercial activity of the foreign state elsewhere . . ." 28 U.S.C. § 1605(a)(2).

See Gates v. Victor Fine Foods, 54 F.3d 1457, 1463 (9th Cir. 1995); *Joseph v. Office of Consulate General of Nigeria*, 830 F.2d 1018, 1021 (9th Cir. 1987). Thus, Plaintiffs and Cross-Defendant BC Hydro carry the burden of proof to show that the commercial activity exception does not apply.

(a) BC Hydro Sales in the United States

Plaintiffs maintain that BC Hydro does not sell, and never has sold, power in the California energy market. Plaintiffs note as support for this contention that BC Hydro is not included in the Federal Energy Regulatory Commission's ("FERC") "Market Based Rates List," which lists every company that either is or was authorized to sell power in the United States. *See* 16 U.S.C. § 824d(c) (power marketer that seeks to engage in electricity sales under the jurisdiction of FERC must place rate schedule on file with Commission). Defendants disagree and argue that BC Hydro sold power directly into California. Defendants cite to statements in BC Hydro's annual reports for the years 2001 and 2002 as the primary support of their claims.[5] BC Hydro, however, maintains that its annual reports describe not only the activities of BC Hydro, but also all of its subsidiaries, including BC Hydro's marketing agent, Powerex and, thus, do not demonstrate that BC Hydro itself sold power in the California market.

It does appear that the annual reports include the trading activities of BC Hydro's principally-owned subsidiaries, including Powerex. The 2002 Annual report expressly states that the financial statements "include BC Hydro and its principal wholly-owned operating subsidiar[y] . . . Powerex Corp." The 2001 Annual report is replete with references to Powerex as well. (Ct. Rec. 96.) Thus, the fact that BC Hydro's annual reports also cover the activi-

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[5] One statement in the annual reports, which is representative of the majority of those cited by Defendants in their briefing, states "BC Hydro . . . continues to sell on a short term payment basis to the California market." (Ct. Rec. 96.)

ties of its subsidiaries undermines the Defendants' offered proof that BC Hydro itself conducts commercial activity in the United States.

Other evidence in the record bolsters the conclusion that BC Hydro, in fact, does not itself conduct commercial activity within the United States. For instance, BC Hydro's Treasurer, Ms. Lambert, attests to the fact that BC Hydro conducts no business in California, as alleged by Defendants. (Ct. Rec. 114.) Moreover, BC Hydro's Principle Engineer, Mr. Spafford, attests that the National Energy Board of Canada permits that BC Hydro holds do not allow it to export power to the United States in exchange for money. (Ct. Rec. 113.) Mr. Spafford also explains that BC Hydro does not possess an export permit from FERC. *Id.* Lastly, Powerex's President, Mr. Peterson, attests that BC Hydro has not sold power at points of delivery in the Untied States and that BC Hydro sells its surplus energy to Powerex at the provincial border. (Ct. Rec. 89.) Mr. Spafford also attests to this fact. (Ct. Rec. 113.) This evidence – that BC Hydro has not submitted to FERC regulation, and testimony from its own officers and an officer of Powerex that BC Hydro does not sell energy directly into the California market – shows by a preponderance that BC Hydro did not sell energy directly into the United States.

(b) Powerex's Sales in the United States

Although the Ninth Circuit has never ruled directly on the issue, the Eighth Circuit has held that a foreign state can surrender its immunity under the commercial activity exception by virtue of activities committed by its agent. *See BP Chemicals, Ltd. v. Jiangsu Sopo Corp.*, 285 F.3d 677 (8th Cir. 2002). Thus, the question here becomes whether Powerex acted as BC Hydro's agent in a manner capable of invoking the commercial activities exception.

The parties dispute the test that the Court should employ to determine whether an agency relationship exists. Defendants suggest that the proper test to use is the "important function" test. That test is derived, however, from cases in which a court considered whether an agency rela-

tionship existed between a parent and its subsidiary sufficient to impute the subsidiary's "minimum contacts" to the parent for the purposes of establishing personal jurisdiction. *See, e.g., Doe v. Unocal Corp.*, 248 F.3d 915, 926 (9th Cir. 2001) ("[I]f the parent and subsidiary are not really separate entities, or one acts as an agent for the other, the local subsidiary's contacts with the forum may be imputed to the foreign parent corporation."); *Modesto City Schools v. Riso Kagaku Corp.*, 157 F.Supp.2d 1128, 1132 (E.D. Cal. 2001) ("It is well established that a parent-subsidiary relationship alone is insufficient to attribute the contacts of the subsidiary to the parent for jurisdictional purposes."). Thus, the Ninth Circuit has employed the "important function" test for a distinctly different purpose than that of determining whether an agency relationship exists for purposes of imputing the subsidiary's "commercial activity" to the parent under the FSIA. Moreover, use of a test utilized to determine "minimum contacts" is inappropriate here because the statute requires that "commercial activity" have "*substantial contact*" with the United States.

Rather, the correct legal standard is derived from the Supreme Court's decision in *First National City Bank v. Bunco Para El Comercio Exterior De Cuba*, 462 U.S. 611 (1983) (hereafter "*Bancec*"). *Bancec* remains the seminal case on the circumstances under which American courts may disregard the separate status of instrumentalities created by foreign governments.

In *Bancec*, the Supreme Court announced a presumption that "duly created instrumentalities of a foreign state are to be accorded a presumption of independent status." 462 U.S. at 627. Thus, the *Bancec* Court recognized that "government instrumentalities established as juridical entities distinct and independent from their sovereign should normally be treated as such." *Id.*

The presumption of separate legal status may be overcome "where a corporate entity is so extensively controlled by its owner that a relationship of principle and agent is

created."[6] *Id.* at 629. The Court in *Bancec* outlined features it attributed to an ordinary, separate government instrumentality:

> A typical government instrumentality, if one can be said to exist, is created by an enabling statute that prescribes the powers and duties of the instrumentality, and specifies that it is to be managed by a board selected by the government in a manner consistent with the enabling law. The instrumentality is typically established as a separate juridical entity, with the powers to hold and sell property and to sue and be sued. Except for appropriations to provide capital or to cover losses, the instrumentality is primarily responsible for its own finances. The instrumentality is run as a distinct economic enterprise; often it is not subject to the same budgetary and personnel requirements with which government agencies must comply. [footnote omitted]. These distinctive features permit government instrumentalities to manage their operations on an enterprise basis while granting them a greater degree of flexibility and independence from close political control than is generally enjoyed by government agencies. [footnote omitted].

Id. at 624-25. The Supreme Court was careful to note, however, that it was not creating an exhaustive list of criteria for disregarding the corporate form of another sovereign state's instrumentalities. *See id.* at 633-34 ("Our decision today announces no mechanical formula for determining the circumstances under which the normally separate juridical status of a government instrumentality is to be disregarded."). Thus, the issue is highly fact bound.

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[6] The Supreme Court also indicated that the presumption can be overcome in instances where recognition of the instrumentality as an entity separate from the state "would work fraud or injustice." *Id.* The parties have not indicated that this exception inapplicable to the case at bar.

See Walter Fuller Aircraft Sales, Inc. v. Republic of the Philippines, 965 F.2d 1375, 1382 (5th Cir. 1992).

Since *Bancec*, the issue of whether an instrumentality is genuinely separate from the government that owns it has arisen a number of times in federal court. The issue of how much control the sovereign exercised over the instrumentality has been key in these decisions. *See, e.g., Transamerica Leasing, Inc. v. La Republica de Venezuela*, 200 F.3d 843 (D.C. Cir. 2000); *S & Davis Int'l, Inc. v. Republic of Yemen*, 218 F.3d 1292 (11th Cir. 2000). In this regard, the "direct control" test for determining agency under the FSIA enunciated by the D.C. Circuit in *Transamerica* is particularly helpful. There, the court stated:

> At a minimum, however, we can confidently state that the relationship of principal and agent does not obtain unless the parent has manifested its desire for the subsidiary to act upon the parent's behalf, the subsidiary has consented so to act, the parent has the right to exercise control over the subsidiary with respect to matters entrusted to the subsidiary, and the parent exercises its control in a manner more direct than by voting a majority of the stock in the subsidiary or making appointments to the subsidiary's Board of Directors.

200 F.3d at 849.

Defendants bear the burden of proving that Powerex was so extensively controlled by BC Hydro that Powerex became the agent or alter ego of BC Hydro.[7] *See Arriba*

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[7] It is important not to confuse the use of the term "agency" in this case, as it is used in two distinct manners. Under § 1603(b), the FSIA indicates that an "agency" of a foreign state may qualify for foreign sovereign immunity itself. This is completely different from the question of whether a foreign state and its agency or instrumentality are alter egos for purposes of invoking the commercial activities exception under § 1605(a)(2). Although such an alter ego relationship may be described in terms of "agency," it is a different inquiry than that which might be conducted under § 1603. The level of state control required to establish an "alter ego" relationship is more extensive than that required to establish FSIA "agency." *See Walter Fuller Aircraft Sales,*

Ltd. v. Petroleos Mexicanos, 962 F.2d 528, 533 (5th Cir. 1992). Defendants' briefing sets out a litany of facts relating to this question. Not all of those facts can be recited here, but the key facts that Defendants deem particularly relevant are broadly categorized as follows:

- **Powerex is subject to BC Hydro's Commodity Risk Management Policy:** Powerex is subject to a risk management policy established and maintained by BC Hydro. The policy describes the risk management infrastructure that serves as an oversight mechanism of Powerex's financial decisions. The policy specifies business activities that Powerex is permitted to engage in, and corresponding limits on those activities. The policy is overseen by the BC Hydro Risk Management Committee ("RMC"). The RMC is a subset of the BC Hydro Corporate Management Committee and reports to the BC Hydro President and CEO. The policy includes certain reporting protocols that Powerex must follow, and transaction limits applicable to Powerex. Any energy trade Powerex wishes to make outside the parameters of the policy must be approved by the RMC. (Ct. Rec. 96 and 138.)
- **BC Hydro and Powerex Work Closely in Managing Generation Assets:** When it comes to optimization of BC Hydro's generation assets, Powerex's relationship with BC Hydro is intended to be very close. A conscious effort is made to share information between BC Hydro and Powerex. Communication and coordination processes ensure that energy transactions are beneficial from a corporate-wide perspective. Information about BC Hydro's generating capacity and value drives Powerex's trading strategy. Hour-to-hour coordination takes place between the BC Hydro operations shift engi-

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965 F.2d at 1381 (citing *Hester Int'l Corp. v. Federal Republic of Nigeria*, 879 F.2d 170, 176 n.5 (5th Cir. 1989)).

neer and the Powerex Real Time trader. The Powerex trader identifies market opportunities, and the BC Hydro engineer determines the amount of generating capacity available for trade. (Ct. Rec. 96.)

- **Powerex Markets and Exports Power on BC Hydro's Behalf:** Defendants point to several statements made in various press releases, reports, public documents, and internal memos that indicate that Powerex is the sole marketer of BC Hydro exports and that BC Hydro is reliant on Powerex to carry out its export functions.

Plaintiffs and Cross-Defendant BC Hydro refute the significance of this information and maintain that Powerex retains its independent status.

The Court agrees with Plaintiffs and Cross-Defendant BC Hydro. A careful review of the evidence submitted by the Defendants shows that Defendants have failed to come forward with sufficient evidence to carry their burden and overcome the presumption that Powerex maintains its separate juridical status.

Defendants rely heavily on the evidence concerning the existence and operation of the RMC. In *Doe v. Unocal Corp.*, 248 F.3d 915, 927 (9th Cir. 2001), the Ninth Circuit held, however, that "[a] parent corporation may be directly involved in financing and macro-management of its subsidiaries . . . without exposing itself to a charge that [its] subsidiary is merely its alter ego."[8] Appropriate parental involvement includes "'monitoring of the subsidiary's performance, supervision of the subsidiary's finance and capital budget decisions, and articulation of general policies and procedures[.]'" *Id.* (quoting *United States v. Best Foods*, 524 U.S. 51, 72 (1998)). Parental oversight of the

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[8] *Doe* does not involve a determination of alter ego status under the FSIA. In *Bancec*, however, the Supreme Court drew from American corporate law regarding the circumstances in which a corporation could be held not to be a separate entity from its owners. *See Bancec*, 462 U.S. at 623.

financial risks its subsidiaries can assume is a standard parental function. Thus, the risk control policies set out in the BC Hydro Commodity Risk Management Policy cannot be construed as the type of control necessary to disregard Powerex's independent status. This conclusion is buttressed by the very wording of the policy itself, which states that the responsibilities of the BC Hydro Manager of Commodity Risk "do[] not include oversight of daily business activities" but instead provide independent oversight to "ensure[] Powerex adheres to [the risk management] policies." (Ct. Rec. 163.)

The other evidence offered by Defendants also falls short. The fact that BC Hydro and Powerex personnel work closely together to optimize the best value that can be obtained for BC Hydro's energy assets does not show direct control. Rather, Plaintiffs and Cross-Defendant BC Hydro have offered credible evidence that, outside of the oversight of the RMC, BC Hydro has no supervision over Powerex's day-to-day trading activity in the energy market. Powerex independently determines the quantity of BC Hydro surplus power to export, and independently determines what parties it will trade with and on what terms. There is simply no evidence in the record that BC Hydro exerts operational control over the quantities and prices at which Powerex sells electricity. *Cf. Doe*, 248 F.3d at 926 (stating alter ego test is satisfied "where the record indicates that the parent dictates '[e]very facet [of the subsidiary's] business – from broad policy decisions to routine matters of day-to-day operation[.]'") (citations omitted). Thus, while the two entities share many of the same objectives and seem to coordinate their operations to large extent, it cannot be said that BC Hydro has the right to exercise or, in fact, does exercise, "direct control" over the fundamental export and marketing functions entrusted to Powerex.

Lastly, it is evident that Powerex does not market and export energy "on BC Hydro's behalf." Powerex was created as a separate legal entity by Provincial directive.

Prior to the creation of Powerex, BC Hydro never sold power in the United States. Moreover, testimony from BC Hydro and Powerex officials indicates that even if Powerex did not exist, BC Hydro would not itself engage in Powerex's trading scheme. (Ct. Rec. 113 and 138.) The excerpts taken from various documents offered by Defendants do not provide any probative evidence that Powerex indeed acts on BC Hydro's behalf. As such, there is no evidence that BC Hydro has manifested its desire for Powerex to act upon its behalf and, thus, Powerex cannot be said to act as BC Hydro's agent. *See Transamerica Leasing*, 200 F.3d at 849.

In sum, the sort of "extensive control" described in *Bancec* simply does not exist here. Powerex in fact possesses most of the characteristics of what *Bancec* referred to as the "typical government instrumentality."

(c) BC Hydro Commercial Activity with a Direct Effect in the United States

Defendants also maintain that the exception included in the third clause of § 1605(a)(2) is applicable, claiming that their cross-claims are "based upon . . . an act outside the territory of the United States in connection with a commercial activity of the foreign state elsewhere and that act causes a direct effect in the United States." 28 U.S.C. § 1605(a)(2). Thus, to trigger this exception, the Court must determine that BC Hydro committed an act in British Columbia that was (a) "commercial" in nature, and (b) that caused a "direct effect" in the United States.

As noted, FSIA defines "commercial activity" as "either a regular course of commercial conduct or a particular commercial transaction or act." *Id.* § 1603(d). In *Republic of Argentina v. Weltover*, 504 US, 607, 612 (1992), the Supreme Court further refined this definition, stating that "when a foreign government acts, not as a regulator of the market, but in a manner of a private player within it, the foreign sovereign's actions are 'commercial' within the meaning of the FSIA." *Id.* at 614. It further explained that "the question is not whether the foreign government

is acting with a profit motive or instead with the aim of fulfilling uniquely sovereign objectives. Rather, the issue is whether the particular actions that the foreign state performs (whatever the motive behind them) are the type of actions by which a private party engages in 'trade and traffic or commerce.'" *Id.*

The Court believes that BC Hydro's generation of hydro power within British Columbia is an exercise of sovereign power, rather than commercial activity. On behalf of the Province, BC Hydro operates an electric utility involved in generation, transmission, and distribution of energy that services the majority of citizens in British Columbia. (Ct. Rec. 113.) BC Hydro also constructs dams, storage facilities, and reservoirs. *Id.* BC Hydro also practices flood control and manages fisheries and ecosystems. *Id.* None of these activities are the type of actions in "which a private party engages in trade and traffic or commerce."

Turning to the second question, the issue is whether BC Hydro's acts caused a "direct effect" in the United States. The Supreme Court has interpreted the "direct effect" language included in FSIA to mean "an effect is 'direct' if it follows as an immediate consequence of the defendant's activity." *Weltover*, 504 U.S. at 618. Following *Weltover*, the Ninth Circuit advanced the rule that a direct effect requires that "legally significant acts giving rise to the claim occurred" in the United States. *See Alder v. Federal Republic of Nigeria*, 219 F.3d 869, 876 (9th Cir. 2000). Thus, in the "direct effects" analysis, the Court "should focus on whether some intervening act broke the chain of causation leading from the asserted wrongful act to its impact in the United States." *See Lyon v. Agusta S.P.A.*, 252 F.3d 1078, 1083 (9th Cir. 2001).

Defendants accuse Cross-Defendant BC Hydro of "manipulating supply," engaging in "restrictive trade practices," and carrying on "trade practices in British Columbia that had a direct effect in California." (Ct. Rec. 1.) It appears, however, that BC Hydro simply delivered energy to Powerex, and Powerex independently marketed and

sold the power into the California markets. Thus, there is no direct linkage between BC Hydro's generation activities within British Columbia and Powerex's sales activities within the United States. Any "direct effect" on the California energy markets was perpetrated by Powerex. Defendants' claims do not follow as an "immediate consequence" of BC Hydro's activities, as all of BC Hydro's activities were restricted to British Columbia and Defendants' claims hinge on Powerex's trading activities in the California market. Therefore, in sum, the exception for commercial activity with "direct effects" inside the United States cannot be properly applied to BC Hydro. BC Hydro's acts are sovereign in nature, and even if construed as "commercial," do not appear to have "direct effects" within the United States.

2. Powerex

The situation concerning whether the Court has jurisdiction over Powerex is the opposite of that regarding BC Hydro: Plaintiffs concede that Powerex engaged in "commercial activity" in the California energy market; thus, the only question regarding Powerex is whether it qualifies as a foreign sovereign under the FSIA. If it does so qualify, it cannot claim immunity under the "commercial activity" exception, and jurisdiction attaches.

To establish Powerex as a foreign sovereign, Defendants argue that Powerex is an instrumentality of a foreign state under FSIA. *See* 28 U.S.C. § 1603. The FSIA grants the federal courts jurisdiction over an action brought against "an agency or instrumentality of a foreign state," *id.* § 1603(a), which is defined to include any entity that is "an organ of a foreign state or political subdivision thereof, or a majority of whose shares or other ownership interest is owned by a foreign state or political subdivision thereof." *Id.* § 1603(b)(2). Therefore, to be an "agency or instrumentality," the entity must *either* be an "organ of a foreign state" or have a majority of its shares owned by "a foreign state or political subdivision thereof."

(a) "Organ" Status Under the FSIA

Defendants first argue that Powerex is an "organ" of the British Columbia government under § 1603(b)(2). In defining whether an entity is an organ, courts consider whether the entity engages in a public activity on behalf of the foreign government. *See Patrickson v. Dole Food Co.*, 251 F.3d 795, 807 (9th Cir. 2001). In making this determination, courts examine the circumstances surrounding the entity's creation, the purpose of its activities, its independence from the government, the level of government financial support, its employment policies, and its obligations and privileges under state law. *See Corporacion Mexicana de Servicios Maritimos, de Servicios Maritimos v. M/T Respect*, 89 F.3d 650, 654-55 (9th Cir. 1996); *Gates v. Victor Fine Foods*, 54 F.3d 1457, 1461 (9th Cir. 1995). The entity may be an organ even if it has some autonomy from the foreign government. *See Gates*, 54 F.3d at 1461.

In *Gates*, the Ninth Circuit held that an industry board that regulated the Canadian pork market was an "organ" where it exercised regulatory authority delegated by the government; its decisions could be appealed to a government agency; and its members enjoyed immunity from suit for their official duties. *See id.* In *Corporacion Mexicana*, the Ninth Circuit held that a Mexican oil refinery was an organ where it was entirely owned by the government, controlled by government appointees, employed only public servants; and had the exclusive responsibility for refining and distributing Mexican property. *See* 89 F.3d at 654-55.

Conversely, in *Patrickson*, the Ninth Circuit held that two chemical companies were not "organs" of the Israeli government, even though they were classified as "government companies" under Israeli law, the government had the right to approve the appointment of directors and officers, as well as any changes in capital structure of the companies, and the government could constrain the use of the companies' profits. *See* 251 F.3d at 808. The court held that this control was "not considerably different from the control a majority shareholder would enjoy under

American corporate law." *Id.* Instead, the court found persuasive that the companies "were not run by government appointees, their employees were not treated as civil servants, nor were the [c]ompanies wholly owned by the government of Israel . . . [n]or did the [c]ompanies exercise any regulatory authority." *Id.*

Most of the facts that existed in *Gates* and that were important to the Ninth Circuit's decision do not exist in regard to Powerex here: the record does not indicate that Powerex maintains any indicia of regulatory authority (Ct. Rec. 138); Powerex does not enjoy immunity from suit, *id.*; and Powerex is not subject to the type of active governmental oversight described in *Gates*. Indeed, as to this last point, Powerex appears to operate autonomously with little, if any, oversight of its daily trading activities by government officials. *See, supra*, discussion in Section I.A.1(b); *Patrickson*, 251 F.3d at 807 (entity's "independence from the government" a factor which must be considered in determining whether it is an organ of a foreign state"). In contrast to the oil refinery at issue in *Corporacion Mexicana*, Powerex is not run by government appointees and its employees are not treated as civil servants.[9] Thus, *Gates* and *Corporacion Mexicana* are distinguishable on the facts before the Court.

Rather, the facts present here are closely analogous to those present in *Patrickson*. Nearly all the facts applica-

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[9] The Court notes that BC Hydro's board of directors are appointed by the government, and, in turn, BC Hydro's directors appoint Powerex's board of directors. (Ct. Rec. 89.) Because the Province does not directly appoint the Powerex directors, the Court finds that Powerex directors do not constitute "government appointees." Likewise, Powerex's employees are not civil servants because Powerex employees are hired by the company, and are not hired by the government. *Cf. Holden v. Canadian Consulate*, 92 F.3d 918, 921 (9th Cir. 1996) ("Because private parties cannot hire . . . civil service . . . personnel, such hiring is necessarily governmental."). Also illustrative is the fact that the employees are eligible for unique profit sharing bonuses not otherwise found in civil service compensation programs in the Province. (Ct. Rec. 138.)

ble to Powerex and set out directly above – the lack of regulatory authority, the ability to be sued, *etc.* – were found dispositive in *Patrickson* and indicative of the fact that the entity at issue was not an "organ" of a foreign state.[10] Instead, as in *Patrickson*, this Court finds that Powerex constitutes and "independent commercial enterprise, heavily regulated, but acting to maximize profits rather than pursue public objectives." 251 F.3d at 808. As such, Powerex cannot be characterized as an "organ" of the Province under § 1603(b)(2) of the FSIA.[11]

(b) The "Ownership" Test Under the FSIA

In the alternative, Defendants contend that Powerex should be considered an agency or instrumentality of British Columbia under the "ownership" test of § 1603(b)(2). Ninth Circuit case law, however, unequivocally forecloses that contention. In *Gates*, the Ninth Circuit held that under the FSIA, a corporation owned by an instrumentality of a foreign government is not itself an instrumentality of that government. 54 F.3d at 1462. An instrumentality includes any entity "a majority of whose shares or other ownership interest is owned by a foreign state or political

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[10] Cross-Defendant Powerex also argues that because the Financial Administration Act allows the Province to "regulate Powerex's planning, management, and reporting of capital expenditures, and examine Powerex's financial and accounting operations," Powerex is an "organ" of the Province. The Ninth Circuit's decision in *Patrickson*, however, refutes this contention as well. *See* 251 F.3d at 808 (stating that granting such authority "directly to the Israeli government . . . is not considerably different from the control a majority shareholder would enjoy under American law").

[11] Cross-Defendant Powerex makes much of the fact that pursuant to the "Entitlement Assignment Agreement," the Province assigned all of its rights, title, and interest in the Canadian Entitlement under the Columbia River Treaty to Powerex. Powerex asserts that the assignment is representative of Powerex's status as an "agency or instrumentality" of a foreign state. The assignment, however, specifically provides "Powerex will not be or be construed as *the agent* of the Province." (Ct. Rec. 89) (emphasis added). Thus, the language of the assignment itself dispels Powerex's argument.

subdivision thereof." 28 U.S.C. § 1603(b)(2). The court in *Gates* read that provision as limiting an instrumentality to the first tier of ownership: those entities owned directly by the foreign state itself or by a political subdivision. *Id.* It held that a corporation wholly-owned by an instrumentality of a foreign government is not a foreign instrumentality under FSIA. *Id.* at 1463.

In *Patrickson*, the Ninth Circuit reaffirmed the rule announced in *Gates*. *See* 251 F.3d at 806-07. In so doing, the court held that two subsidiaries of a parent company owned by Israel were never owned directly by the Israeli government, and, as such, *Gates* quashed their claim that they were instrumentalities through stock ownership. *Id.*

Thus, under this express Ninth Circuit law, it is clear that while BC Hydro, a fist-tier government-owned corporation, qualifies as an "agency or instrumentality," Powerex, a second-tier government-owned corporation, does not. Because they must, Defendants do their best to maneuver around this binding case law, but to no avail.

First, Defendants note that other circuits have held the opposite. *See, e.g., Delgado v. Shell Corp.*, 231 F.3d 165, 176 (5th Cir. 2000) (holding wholly-owned subsidiaries qualify as agencies or instrumentalities of foreign states under FSIA). Clearly, this argument is not compelling, as Ninth Circuit case law is binding on this Court and Fifth Circuit case law is not. As the court noted in *Patrickson*, "none of this matters, because *Gates* decided this question, and we are bound by its authority."

Second, Defendants note that the Supreme Court has granted *certiorari* in *Patrickson* on this specific issue and, thus, this Court should delay any decision as to whether Powerex constitutes an "agency or instrumentality." *Patrickson*, however, remains binding authority until overturned.[12] *See Hasbrouck v. Texaco, Inc.*, 663 F.2d 930, 932

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[12] Cross-Defendant Powerex forwards a rather creative, but ultimately unpersuasive, argument in an attempt to qualify Powerex as an "agent or instrumentality" under the Ninth Circuit's fist-tier ownership

(9th Cir. 1981) (holding district courts are bound by law of their home circuit; they are not to resolve splits between circuits no matter how egregiously in error they may feel their own circuit to be).

B. Jurisdiction Over the United States Cross-Defendants

Plaintiffs claim that the Court lacks subject matter jurisdiction over the cross-claims filed against BPA and the WAPA because the cross-claims fall within the exclusive jurisdiction of the federal courts. Plaintiffs argue that since those claims were originally filed in state court, and the state court did not have jurisdiction in the first instance, the doctrine of derivative jurisdiction deprives this Court of jurisdiction. Defendants contend that the derivative jurisdiction doctrine is of no import because the federal agencies waived their sovereign immunity by agreeing to the "ISO" and "PX" tariffs, the terms of which purportedly made the agencies amenable to service in the state court. Moreover, Defendants argue that even if the state court could not acquire jurisdiction over the cross-complaints, the Ninth Circuit has rejected the doctrine of derivative jurisdiction. The United States responds by arguing that BPA and WAPA did not, and, indeed, could not, waive the government's sovereign immunity, and are in agreement with the Plaintiffs that the doctrine of derivative jurisdiction remains viable in the Ninth Circuit. For the reasons discussed below, the Court finds that it lacks

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test. Powerex asserts that because BC Hydro was formed under the Hydro and Power Authority Act in British Columbia, and acts as the Hydro and Power Authority for the Province, it is, in essence, directly akin to status as the Province. As the argument goes, since BC Hydro owns Powerex, and BC Hydro *is* the Province, Powerex is owned directly by the Province, thereby satisfying the Ninth Circuit's first-tier ownership test. This argument ignores one salient fact, however: the Hydro and Power Authority Act created BC Hydro as a Provincial Crown Corporation, stating that "for all its purposes [BC Hydro is] *an agent* of the government and its powers may be exercised only as *an agent* of the government." R.S.B.C. 1996, Ch. 212, § 3(1) (emphasis added).

jurisdiction over the claims asserted against the United States.

(1) Waiver of Sovereign Immunity

If the United States did, indeed, waive its sovereign immunity and agree to service on the cross-claims in state court, the issue of whether the state court otherwise can exercise subject matter jurisdiction is moot. Thus, the Court must address the waiver argument first.

The wholesale electricity markets in California are operated by the California Power Exchange ("PX") and the California Independent System Operator ("ISO"). Prices for power delivered during a given hour of a particular day are governed by PX and ISO tariffs approved by the FERC. Thus, it is the FERC that ultimately authorizes the tariffs. By participating in the PX and ISO market auctions, BPA and WAPA agreed to the tariffs. Both the PX and ISO tariffs contained a provision stating:

> Market Participants irrevocably consent that any legal action or proceeding arising or relating to this ISO Tariff to which the ISO ADR Procedures do not apply, shall be brought in any court of the State of California or any federal court of the United States of America located in the State of California. *Market Participants irrevocably waive any objection that they may have now or in the future to said courts in the State of California* as the proper and exclusive forum for any legal action or proceeding under or related to this . . . Tariff.

(Ct. Rec. 81.) (emphasis added).

Defendants claim that this clause equates to a valid waiver of the United States sovereign immunity. In support of their argument, Defendants point to case law that holds that FERC-approved tariffs constitute "federal law." *See, e.g., In Re California Natural Gas and Electricity Antitrust Litigation*, 170 F. Supp. 2d 1052, 1060 n.11 (D. Nev. 2001) ("A federal tariff has the force and effect of federal law."). Thus, Defendants suggest that the tariffs represent

an unequivocal expression on the part of the United States to waive its immunity.

This argument, however, fails to address the threshold issue – does FERC have the authority to waive the sovereign immunity of the BPA and WAPA? Since the tariffs are subject to FERC approval and are only valid in that regard, FERC essentially imposed the requirement that BPA and WAPA agree to waive their immunity via the clause included in the tariffs. Yet, Defendants have not pointed to any authority suggesting that FERC indeed has the power to waive the sovereign immunity of another independent federal agency in this manner.

It is a fundamental principle of federal law that only Congress, not a federal agency or officer, can waive sovereign immunity. *See Minnesota v. United States*, 305 U.S. 382, 388-89 (1939) ("[I]t rests with Congress to determine not only whether the United States may be sued, but in what courts the suit may be brought. . . . [w]here jurisdiction has not been conferred by Congress, no officer of the United States has the power to give any court jurisdiction of a suit against the United States."). Moreover, any waiver of sovereign immunity must be unequivocally expressed in a federal statute and will not be implied. *See Lane v. Pena*, 518 U.S. 187, 191 (1996). Defendants do not cite, and this Court was unable to locate, any congressionally-enacted statute that imparts FERC with the power to waive the sovereign immunity of other federal agencies via provisions included in FERC-approved tariffs. As a result, the Court holds that no valid waiver occurred and BPA and WAPA are immune from suit in the state court.[13]

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[13] Defendants also claim that because Congress supposedly granted BPA broad powers to operate as a commercial enterprise, Congress in turn waived BPA's sovereign immunity concerning suits involving BPA's commercial activities. Defendants cite *Loeffler v. Frank*, 486 U.S. 549 (1988) in support of their position. There, the Supreme Court stated, "by launching 'the Postal Service into the commercial world,' *and including a sue-and-be-sued clause in its charter*, Congress has cast off the Service's 'cloak of sovereignty' and given it the status of a

(2) Derivative Jurisdiction Doctrine

The doctrine of derivative jurisdiction states "[w]hen an action is removed from state court by the United States pursuant to 28 U.S.C. § 1442(a)(1), the jurisdiction of the district court upon removal is derivative of the state court's." *In Re Elko County Grand Jury*, 109 F.3d 554, 555 (9th Cir. 1997). This means that where the state court lacked jurisdiction over the claim giving rise to the removal, the "federal court acquires none, although in a like suit originally brought in federal court it would have had jurisdiction." *Minnesota*, 305 U.S. at 388.

As an initial matter, it is important to note that here, the California state court lacked jurisdiction over the cross-claims filed by Defendants against Cross-Defendant the United States. Defendants' cross-claims against the United States arise under the Federal Tort Claims Act ("FTCA"). *See United Air Lines, Inc. v. Wiener*, 335 F.2d 379, 401 (9th Cir. 1964) ("The right to indemnity, where it exists, may be enforced against the United States under the Tort Claims Act."). The FTCA grants the federal courts "exclusive jurisdiction of civil actions on claims against the United States for money damages" arising under state law. 28 U.S.C. § 1346(b). Because federal courts have exclusive jurisdiction over indemnity and other claims against the United States, Defendants' cross-claims against the United States were improperly filed in state court, which lacked jurisdiction to hear them.

Moreover, the United States is immune from suit under the particular cross-claims brought by Defendants. Plaintiffs' Master Complaint alleges violations of California anti-trust laws (Cartwright Act) and California's Unfair

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private enterprise." *Id.* at 555 (emphasis added). *Loeffler* does not support the proposition Defendants assert that it does; it was the fact that Congress included a "sue-and-be-sued" clause in the Postal Service's charter that waived its immunity, not the simple fact that it operated as a commercial enterprise. Defendants do not point to a similar "sue-and-be-sued" clause in BPA's chartering Act and, as such, BPA could not otherwise waive its sovereign immunity.

Competition Law ("UCL"). Defendants seek indemnity from the United States if they are held liable for violating these laws. The United States, however, cannot be liable on Defendant's indemnity claims unless they could also be liable on Plaintiffs' underlying claims. *See Western Steamship Lines, Inc. v. San Pedro Peninsula Hosp.*, 876 P.2d 1062, 1070 (Cal. App. 1994).

As to the antitrust claims, "antitrust laws do not apply to the federal government." *See Department of Water & Power v. Bonneville Power Admin.*, 759 F.2d 684, 693 n.12 (9th Cir. 1985). The fact that the cross-claims are premised on the California antitrust law does not alter the result, because "[t]he analysis under [the Cartwright Act] mirrors the analysis under federal law because the Cartwright Act . . . was modeled after the Sherman Act." *County of Tuolumne v. Snora Comm. Hosp.*, 236 F.3d 1148, 1160 (9th Cir. 2001). Hence, as BPA and WAPA are immune under the Sherman Act, they are likewise immune under the Cartwright Act. *Cf. Saratoga Sav. & Loan Ass'n v. Federal Home Loan Bank*, 724 F. Supp. 683, 688-89 (N.D. Cal. 1989) (dismissing Cartwright Act claim against federal agency, explaining that "California courts have uniformly recognized that governmental entities are not 'persons' within the meaning of the [Act] and that such entities are, therefore, not subject to liability under [it].").

Likewise, the United States cannot be sued under the UCL. Section 17203 of the law allows suit against any person. *See* Cal. Bus. & Prof. § 17203. Section 17201 defines "persons" as meaning "natural persons, corporations, firms, partnerships, joint stock companies, associations, and other organizations of persons." *Id.* at § 17201. California courts have determined that the State, its subdivisions or agencies, and other governmental entities are not "persons" subject to suit under the UCL. *See, e.g., Trinkle v. California State Lottery*, 71 Cal. App. 4th 1198, 1203-04 (1999) (holding that as state agency, California State Lottery is not "person" amendable to suit under UCL). It fol-

lows that the United States is immune from suit under the UCL as well.

Having established that the California state court does not have jurisdiction over the cross-claims asserted by Defendants, the only remaining question is whether the derivative jurisdiction doctrine bars this Court from asserting jurisdiction over the cross-claims against the United States upon removal. Since Congress enacted 28 U.S.C. § 1441(e), the vitality of the doctrine has come into question. Section 1441(e) provides that "[t]he court to which such civil action is removed is not precluded from hearing and determining any claim in such civil action because the State court from which such civil action is removed did not have jurisdiction." 28 U.S.C. § 1441(e). This section effectively invalidates the applicability of the derivative jurisdiction doctrine from removals under § 1441.

The United States removed the cross-claims under § 1442, however. (Ct. Rec. 3). A clear split in authority exists among the federal circuits as to whether 1441(e) abolishes the derivative jurisdiction doctrine as it applies to § 1442. *See Smith v. Cromer*, 159 F.3d 875, 879 (4th Cir. 1998) (doctrine still valid); *Edwards v. United States Dep't of Justice*, 43 F.3d 312, 315 (7th Cir. 1994) (doctrine still valid); *State of North Dakota v. Fredericks*, 940 F.2d 333, 336 (8th Cir. 1991) (doctrine invalid); *Federal Nat'l Mortgage Ass'n v. LeCrone*, 868 F.2d 190, 192 n.4 (6th Cir. 1989), *cert denied*, 493 U.S. 938 (1989) (doctrine invalid). For the purposes here, however, it is important to note that in the Ninth Circuit the doctrine remains vital in regard to § 1442 removals.

In a case decided after 28 U.S.C. § 1441(e) went into effect, the Ninth Circuit held that "because this case was removed from state court pursuant to § 1442, our jurisdiction is derivative of the state court's jurisdiction." *In Re Elko County*, 109 F.3d at 555. The court applied the doctrine of derivative jurisdiction to hold that "because we conclude that the state court lacked jurisdiction to issue the subpoena [against a federal employee], we must dis-

miss the case on that ground." *Id.* *In Re Elko County* constitutes the Ninth Circuit's most recent statement on the derivative jurisdiction doctrine, and indicates that the Ninth Circuit holds the view that Congress only abolished derivative jurisdiction as to removals under § 1441, and not § 1442.

Defendants contend that twice the Ninth Circuit has held, in cases prior to *In Re Elko County*, that "the Section 1441(e) repeal of derivative jurisdiction extends to Section 1442 removals," citing *Guidry v. Durkin*, 834 F.2d 1465, 1468 n.4 (9th Cir. 1987) and *Beeman v. Olson*, 828 F.2d 620, 621 (9th Cir. 1987). Defendants mischaracterize both *Guidry* and *Beeman*. In both cases, the court merely noted, without analysis, the recent addition of section 1441(e). Both openly acknowledged that § 1441(e) had no application to the holdings of those cases, and as such, the statements made in each constituted no more than *dicta*. As a result, the *In Re Elko County* decision, holding that the derivative jurisdiction doctrine remains viable in regard to removals made under § 1442, constitutes the governing law in the Ninth Circuit. Given this conclusion, the Court finds that under the derivative jurisdiction doctrine, it does not have jurisdiction over the cross-claims filed against the United States because the state court lacked jurisdiction to hear them in the first place.

Accordingly, **IT IS HEREBY ORDERED** Plaintiffs' Motion to Remand and Motion to Strike and/or Sever Cross-Complaints (Ct. Rec. 58) is **GRANTED**.

IT IS SO ORDERED. The District Court Executive is directed to enter this order and to provide copies to counsel.

DATED this 13th day of December, 2002.

/s/ ROBERT H. WHALEY
ROBERT H. WHALEY
United States District Judge

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

No. 02-57200, 02-57202, 02-57210, 03-55118, 03-55131, 03-55176, 03-55241, 03-55249, 03-55266, 03-55319, 03-55322 & 03-55349

(D.C. No. CV-02-01001-RHW)
Southern District of California, San Diego

PEOPLE OF THE STATE OF CALIFORNIA, ET AL.,
Plaintiffs,

ARIZONA ELECTRIC POWER COOPERATIVE, INC., ET AL.,
Intervenor,

v.

NRG ENERGY INC., ET AL.,
Defendants,

v.

RELIANT ENERGY SERVICES, INC., ET AL.,
Cross-claimants-Appellants,

v.

ARIZONA ELECTRIC POWER COOPERATIVE, INC., ET AL.,
Cross-defendants-Appellees.

[Filed: Mar. 3, 2005]

ORDER

Before: SCHROEDER, Chief Judge, CANBY, and TALLMAN, Circuit Judges.

The panel has voted to deny the petition for panel rehearing and to deny the petition for rehearing en banc.

The full court has been advised of the petition for rehearing en banc and no judge has requested a vote on whether to rehear the matter en banc. Fed. R. App. P. 35.

The petition for panel rehearing and the petition for rehearing en banc are DENIED.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

Coordination Proceeding Special Title (Rule 1550(b))

WHOLESALE ELECTRICITY ANTITRUST CASES I & II

Nos. CV 02-0990-JM(LAB)
CV 02-1000-L(JAH)
CV 02-1001-B(POR)

This Document relates to:

Reliant Energy Services, Inc., et al. v. Arizona Electric Power Cooperative, Inc., et al.

Duke Energy Trading and Marketing, LLC, et al. v. Arizona Public Service Company, et al.

Reliant Energy Services, Inc., et al. v. Arizona Electric Power Cooperative, Inc., et al.

DECLARATION OF KENNETH G. PETERSON

I, Kenneth G. Peterson, declare as follows:

1. I have personal knowledge of the facts stated in this declaration and, if called as a witness, I could and would competently testify to all of the facts stated herein.

2. I am trained as a resource economist and hold a masters degree in economics. Prior to joining Powerex, I was employed for 14 years with the British Columbia Hydro and Power Authority ("BC Hydro"). During my career at BC Hydro, I was responsible for various aspects of resource planning and, in that capacity, developed an intimate knowledge of BC Hydro's generating resources, the evolution of domestic demand for electricity within BC Hydro's service area in British Columbia, and the potential for the export of electricity to interconnected jurisdictions, particularly in the United States. I had personal

responsibility for overseeing the preparation of both resource plans and demand forecasts during my tenure at BC Hydro.

3. BC Hydro is a Crown corporation, incorporated in 1964 pursuant to the British Columbia Hydro and Power Authority Act. BC Hydro is owned in its entirety by Her Majesty the Queen in Right of the Province of British Columbia, by which name the Province of British Columbia (the "Province") is formally known. Dividends from the operations of BC Hydro are payable only to the Province.

4. The Lieutenant Governor in Council (the Executive Council of the Province) appoints BC Hydro's Board of Directors. A true copy of Orders in Council Nos. 751/2001, dated August 9, 2001, and 847/2001, dated September 25, 2001, appointing BC Hydro's Board of Directors, are attached hereto as Exhibit A. To my knowledge, no subsequent Orders in Council have been passed amending, rescinding, or superseding the above-described Orders in Council.

5. BC Hydro's corporate objective is to support the development of the Province of British Columbia through the efficient supply of electricity. On behalf of the Province, BC Hydro operates an electric utility involved in the generation, transmission, and distribution of electricity.

6. All substantive powers of BC Hydro are subject to, and can only be exercised with, the approval of the Lieutenant Governor in Council or the Minister responsible for BC Hydro.

7. BC Hydro sells all of its surplus electricity to Powerex, and all of those sales take place at the Provincial border. BC Hydro does not, and has not, sold power at points of delivery in the United States. BC Hydro has never participated in the bidding process established by the CalPX and ISO.

8. Powerex is an entity created by BC Hydro pursuant to its authority under the British Columbia Hydro and Power Authority Act. Powerex maintains two rate sched-

ules on file with FERC under which it sells power generated by BC Hydro at wholesale in United States interstate commerce pursuant to market-based rate authority granted by FERC on September 24, 1997.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct, and that this Declaration was executed this 9th day of August 2002, at Belle Fourche, South Dakota.

/s/ Kenneth G. Peterson
KENNETH G. PETERSON

[Exhibit omitted]

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

Coordination Proceeding Special Title (Rule 1550(b))

Nos. CV 02-0990-JM(LAB)
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DECLARATION OF KENNETH G. PETERSON

I, Kenneth G. Peterson, declare as follows:

1. I have personal knowledge of the facts contained in this Declaration, except for those matters stated on information and belief, as to which I believe them to be true. If called as a witness, I could and would competently testify to all of the facts stated herein.

2. I have held the position of President and Chief Executive Officer of Powerex Corporation ("Powerex") since December 1, 1994.

3. I am trained as a resource economist and hold a masters degree in economics. Prior to joining Powerex, I was employed for 14 years with the British Columbia Hydro and Power Authority ("BC Hydro"). During my career at BC Hydro, I was responsible for various aspects of resource planning and, in that capacity, developed an inti-

mate knowledge of BC Hydro's generating resources, the evolution of domestic demand for electricity within BC Hydro's service area in British Columbia, and the potential for the export of electricity to interconnected jurisdictions, particularly in the United States. I had personal responsibility for overseeing the preparation of both resource plans and demand forecasts during my tenure at BC Hydro. When I began my career at BC Hydro, the corporation was in the latter stages of a very significant expansion of its generating capacity through the construction of major hydroelectric facilities in British Columbia. My understanding of the genesis of that construction program and its subsequent evolution is set out in the following paragraphs.

4. In 1962, the Provincial Government passed the British Columbia Hydro and Power Authority Act to establish a vehicle in which to hold assets it had acquired and to promote major hydroelectric development involving the construction of significant storage dams and generating capacity on the Peace and Columbia River systems (the "Two River Policy"). The Act was subject to litigation and ultimately declared ultra vires by the British Columbia Supreme Court in 1963. In 1964 the Provincial Government passed another British Columbia Hydro and Power Authority Act, which created the Provincial Crown Corporation known today as BC Hydro.

5. Once created, BC Hydro implemented the Two River Policy. Specifically, it began planning for the development of the W.A.C. Bennett Dam to create the Williston Reservoir on the Peace River. The Dam was completed in 1967. Since 1968, BC Hydro has further developed the hydroelectric potential of the Peace River with the installation of the Peace Canyon Dam and other power-related facilities.

6. In connection with the Two River Policy and its development of the Columbia River system, BC Hydro joined the Provincial Government and the Canadian Government in negotiations with the United States between

1962 and 1964 to develop a Protocol to the Columbia River Treaty ("Treaty").

7. The formal documents that comprise the arrangements between Canada and the United States with respect to the Treaty are compiled in a book issued by the Canadian Departments of External Affairs and Northern Affairs and National Resources and published by the Queen's Printer and Controller of Stationery in February 1964. In April 1964, the Department of External Affairs issued a further volume explaining additional aspects of the process that led to the finalization of the Treaty and the Protocol. My review of these documents, together with my involvement with the Treaty in the context of my responsibilities at BC Hydro and later at Powerex, has informed my understanding of these historical events.

8. Attached as Exhibit A hereto is a true copy of the following pages from the book described in Paragraph 8: 58-81 (Columbia River Treaty); 82-90 (the formal press release issued by the Prime Minister of Canada on January 17, 1961, immediately after signing the Treaty, explaining its origin and effect); 100-106 (Canada-British Columbia Agreement dated July 8, 1963); 107-109 (Canada-British Columbia Agreement dated January 13, 1964); 110-114 (exchange of Notes and Protocol regarding the Columbia River Treaty); 115-121 (exchange of Notes and Attachment Relating to Terms of Sale).

9. The Treaty required Canada to construct storage facilities in Canada to control the flow of the Columbia River in a way that would enable the United States to generate more power at its existing facilities on the Columbia River (the "Downstream Benefits"), and entitled Canada to receive half of the Downstream Benefits over the 60-year life of the Treaty (the "Canadian Entitlement"). In 1963, the British Columbia Provincial Government negotiated an agreement with Canada that provided for British Columbia to directly receive the Downstream Benefits. This Agreement is found at pages 100-106 of Exhibit A.

10. In 1964, the Province, Canada, and the United States agreed to a Protocol for the implementation of the Treaty. The Protocol is found at pages 110-114 of Exhibit A. In two separate documents, it was agreed that British Columbia would receive an upfront payment in place of the first 30 years of the Canadian Entitlement. These two documents are found at pages 107-109 and 115-121 of Exhibit A.

11. In October 1964 BC Hydro prepared a booklet that consolidated for convenient reference a number of documents relating to the Treaty. Attached as Exhibit B hereto is a true copy of the following pages from the book described in Paragraph 11: 1; 39-45 (Canadian Entitlement Purchase Agreement); 47 (Designation of Canadian Entity); and 49-54 (Exchange of Notes).

12. In September 1964, Canada designated BC Hydro as the Canadian Entity under the Treaty. This Designation is found at page 47 of Exhibit B.

13. BC Hydro played a key role, through its then Chairman Hugh Keenlyside, in the negotiations that produced these important international and interprovincial agreements. As a result, BC Hydro was responsible for construction of the reservoir facilities on the Columbia River to fulfill Canada's obligations under the Treaty and has been responsible ever since for the ongoing implementation and administration of the Treaty. The arrangements made for the initial disposal are found in the Canadian Entitlement Purchase Agreement (the "CEPA") between BC Hydro and Columbia Storage Power Exchange, a non-profit corporation organized under the laws of the State of Washington. Mr. Keenlyside signed this document on behalf of BC Hydro and it was approved by an Exchange of Notes dated September 16, 1964, between Canada and the United States. True copies of the CEPA and the Exchange of Notes are found at pages 39-45 and 49-54 of Exhibit B.

14. During the negotiations related to the Columbia River Treaty, BC Hydro continued its parallel development of the Peace River pursuant to the Two River Policy.

15. Construction of the facilities contemplated by the Two River Policy were completed in 1984 with the completion of the Revelstoke Dam on the Columbia River.

16. During the 1980s, BC Hydro was an active seller of power to the United States entities, primarily the Bonneville Power Administration ("Bonneville"), with such sales taking place at the international border.

17. In the late 1980's, the Provincial Government overhauled the legislation governing the energy sector in British Columbia. The Provincial Government created Powerex as an export agency for the purpose of marketing power to United States entities. The Provincial Government wished to ensure that BC Hydro's surplus power was marketed in a manner that maximized the benefits to all British Columbians. Additionally, the Provincial Government wished to promote the development of electricity produced by independent power producers for sales to the United States market.

18. In December 1988, BC Hydro – acting as the agent of the British Columbia Provincial Government under § 3(1) of the Hydro Act – incorporated Powerex under the Company Act of British Columbia as a wholly owned subsidiary of BC Hydro to serve the vital role of marketing the Province's surplus electric power. Powerex was originally incorporated as the British Columbia Power Export Corporation on December 13, 1988. The company changed its name to British Columbia Power Exchange Corporation on February 15, 1991, and then changed its name again to Powerex Corp. on September 6, 2000. True and correct copies of the Articles of Incorporation and Certificates changing the name of the company are attached hereto as Exhibit C.

19. Following its incorporation in 1988, Powerex assumed its responsibility for marketing surplus power from

the BC Hydro system. BC Hydro delivered surplus electricity to Powerex at the British Columbia border and Powerex, in turn, sold it to entities from the United States and Alberta at wholesale. Powerex continues to perform this function within this structure to the present day.

20. Since its incorporation, Powerex has also been called upon to serve some specific policy objectives set for it by the Provincial Government. For instance, in the early 1990's the Provincial Government approved Powerex as the appropriate vehicle to create a power exchange operation ("PEO") in British Columbia. The Provincial Government desired to promote a domestic independent power production industry by creating an efficient market for the private power. The PEO was approved as operational as of September 1993. The PEO contemplated Powerex making an auction market for the trading of electricity. The objectives for Powerex were set out in a document prepared by Powerex entitled "Opportunities in the Short-Term Electricity Market," which formed the basis for a presentation to stakeholders in early 1991 as part of the application process associated with the approval of the PEO. True copies of the relevant portions of this document are attached hereto as Exhibit D.

21. The PEO was part of the means by which Powerex was to meet the objectives of the Province. The PEO remained in place for a number of years, but did not fulfill expectations because of lack of interest from the generating sector. The PEO is no longer operational.

22. Powerex was directly involved with the realization of Provincial objectives in connection with the Columbia River Treaty commencing early in the 1990s. It was at that time that the Province began the process of determining how to receive or dispose of the Canadian Entitlement under the Treaty once their contracts for the sale of the Downstream Benefits began to expire in 1998. Under the Treaty, the United States would be obliged to return the Canadian Entitlement to Canada unless a resale could be negotiated and approved by both countries.

23. Commencing in early 1990, BC Hydro began discussions with the U.S. Army Corps of Engineers and Bonneville (collectively the U.S. Entity under the Treaty) to define the Canadian Entitlement. Discussions became more focused commencing in 1993 as representatives of the Province, BC Hydro, Bonneville, and the U.S. Army Corps of Engineers began meetings to address the issue.

24. Early on, the potential for resale of the Canadian Entitlement in the United States became a prominent part of the discussions. Mr. Ken Epp, then President of Powerex, was an early member of the negotiating team, along with the Deputy Minister of Energy, Petroleum Mines and Mineral Resources. Upon the retirement of Mr. Epp, I became President and CEO of Powerex. I was also a member of the Province's negotiating team. I remained in both capacities through the completion of the negotiating process that resulted in arrangements with the United States for the return and/or resale of the Canadian Entitlement effective April 1, 1999. The negotiation process with respect to the Canadian Entitlement took approximately seven years. While the negotiating team on the Canadian side varied from time to time, I was a part of it throughout the process. The final arrangements approved by both countries include a significant role for Powerex.

25. Pursuant to an Entitlement Assignment Agreement, the Province assigned all of its rights, title, and interests in the Entitlement to Powerex so that it can realize the maximum benefits of the surplus power for British Columbians. While the precise amount of the Canadian Entitlement is determined pursuant to very complex calculations, it is a very significant resource. A true copy of the Entitlement Assignment Agreement is attached hereto as Exhibit E.

26. In 1997, the Province passed the Power for Jobs Act ("Jobs Act"). The Jobs Act contemplates diverting portions of BC Hydro's surplus power or the Canadian Entitlement, which would otherwise be sold by Powerex to ex-

ternal markets, to British Columbia industry for the purpose of job creation. Pursuant to the Jobs Act, the Provincial Government was empowered to instruct either BC Hydro or Powerex to supply power to British Columbia industry on terms defined by the Provincial Government.

27. On behalf of Powerex, I have been involved in numerous negotiations between the Provincial Government and industrial undertakings contemplating locating facilities in British Columbia for which the price of power is a significant factor in making a location decision. Powerex was contemplated to play an important role in connection with the supply of power in each case. While those efforts have been unsuccessful, pursuant to the Jobs Act and at the direction of the Provincial Government, Powerex has supplied power on favorable terms to facilitate the expansion of some existing businesses in British Columbia.

28. On March 30, 1984, the Provincial Government entered into an agreement with the City of Seattle, Washington ("Seattle"), related to the Skagit River Treaty (the "Skagit Agreement"). Under the Skagit Agreement, Seattle agreed not to raise the High Ross Dam, which would have had the effect of flooding substantial areas of British Columbia. As compensation for the loss of the power benefits that would have been derived from the High Ross Dam, British Columbia agreed to deliver certain quantities of electricity to Seattle until 2066. A true copy of the Skagit Agreement is attached hereto as Exhibit F.

29. On December 3, 1985, the Province assigned certain of the Province's benefits and obligations under the Skagit Agreement to BC Hydro. A true copy of this document is attached hereto as Exhibit G. As a result of a 1996 Bonneville rate case, lengthy negotiations commenced between the Province, Seattle, and Bonneville regarding the transmission arrangements relating to the power provider under the Skagit River Treaty. Powerex took the lead role (on behalf of the Province) in negotiating a resolution of the issues among the parties. Effective February 1, 1999, BC Hydro entered into the "Agreement

for the Transmission of Skagit River Treaty Power between British Columbia Hydro and Power Authority and the City of Seattle" (the "Skagit Transmission Agreement"). A true copy of the Skagit Transmission Agreement is attached hereto as Exhibit H. Powerex executed a replacement power agreement with Bonneville, also effective February 1, 1999, under which Seattle was able to call upon Bonneville to deliver power to Seattle for the account of Powerex in the event Powerex was unable to deliver the Skagit River Treaty power pursuant to the Skagit Agreement. Additionally, Seattle and Bonneville executed a Point-to-Point Transmission Service Agreement ("Skagit PTP Agreement") for the necessary transmission capacity for the provision of the Skagit Treaty power. BC Hydro assigned its rights and obligations, and delegated its operating responsibilities under the Skagit Transmission Agreement and the Skagit PTP Agreement to Powerex, to the extent permitted by such agreements. A true copy of the BC Hydro – Powerex Assignment Agreement is attached hereto as Exhibit I.

30. Columbia Power Corporation ("CPC") and CBT Power Corp. ("CBT") were established by Columbia Basin Trust, a corporation established by Columbia Basin Trust Act. CPC and CBT were responsible for upgrading the Brilliant generating facilities. CPC/CBT's upgrade was secured by a power purchase agreement with West Kootenay Power (now UtiliCorp Networks Canada, Inc). Powerex entered into a Backstop Agreement with CPC/CBT to facilitate the Provincial Government's desire that CPC/CBT develop the Brilliant Dam upgrade. Under the Backstop Agreement, Powerex agreed to purchase electricity produced at the Brilliant facilities in the event West Kootenay Power defaults on its purchase obligation due to insolvency. A true copy of the Backstop Agreement is attached hereto as Exhibit J.

31. Powerex performs its role as the exclusive exporter of BC Hydro's surplus under my direction. I report in the normal course to my Board of Directors, but, on a day-to-

day basis, my management team and I are solely responsible for determining the manner in which Powerex meets its mandate to maximize the value of its export activities. Over the course of the 1990s, it became apparent that Powerex could better achieve its objectives by expanding its activities into acquiring and reselling power generated by parties other than BC Hydro. Again, under my direction, Powerex has expanded considerably in this area and has become an active trader in wholesale markets throughout North America. This has occurred under my direction and it is my belief that it has assisted British Columbia in achieving its objective of obtaining maximum value for the surplus power generated from British Columbia to the benefit of British Columbia taxpayers and ratepayers.

32. BC Hydro's Board of Directors appoints Powerex's Board of Directors. A number of Powerex's current executives previously worked at BC Hydro.

33. Powerex does not pay Canadian federal and Provincial income tax.

34. BC Hydro is a Crown corporation, incorporated in 1964 pursuant to the British Columbia Hydro and Power Authority Act. BC Hydro is owned in its entirety by Her Majesty the Queen in Right of the Province of British Columbia, by which name the Province of British Columbia (the "Province") is formally known. Dividends from the operations of BC Hydro are payable only to the Province.

35. The Lieutenant Governor in Council (the Executive Council of the Province) appoints BC Hydro's Board of Directors. A true copy of Orders in Council Nos. 751/2001, dated August 9, 2001, and 847/2001, dated September 25, 2001, appointing BC Hydro's Board of Directors, are attached hereto as Exhibit K. To my knowledge, no subsequent Orders in Council have been passed amending, rescinding, or superseding the above-described Orders in Council. BC Hydro, as the sole shareholder of Powerex, is authorized to appoint Powerex's Board of Directors. It does so by issuing a resolution naming the Board mem-

bers. Outside members of Powerex's current Board of Directors were subject to concurrence by the Office of the Premier. A true copy of the Extract from the Minutes of a Meeting of the Board of Directors of British Columbia Hydro and Power Authority held on October 18, 2001, is attached hereto as Exhibit L.

36. All substantive powers of BC Hydro are subject to, and can only be exercised with, the approval of the Lieutenant Governor in Council or the Minister responsible for BC Hydro.

37. BC Hydro's corporate objective is to support the development of the Province of British Columbia through the efficient supply of electricity. On behalf of the Province, BC Hydro operates an electric utility involved in the generation, transmission, and distribution of electricity.

38. BC Hydro maintains authority over Powerex through various arrangements, including a Risk Management Committee that oversees the financial exposure to which Powerex is subject. The Risk Management Committee is required to make periodic reports to the Provincial Government's Ministry of Finance.

39. BC Hydro also acts as the treasury for Powerex and facilitates the issuance of letters of credit in support of Powerex's commercial arrangements.

40. . BC Hydro's borrowings and other fiscal arrangements are provided through, and therefore are supported by, the Provincial Government. As a result, BC Hydro maintains a credit rating equal to that of the Province. Powerex's commercial arrangements, in turn, are frequently supported by a guarantee from BC Hydro, thus providing Powerex the benefit of both BC Hydro's credit rating as well as the implied backing of the Provincial Government.

41. BC Hydro sells all of its surplus electricity to Powerex, and all of those sales take place at the Provincial border. BC Hydro does not, and has not, sold power at points of delivery in the United States. BC Hydro has

never participated in the bidding process established by the CalPX and ISO.

42. Powerex maintains two rate schedules on file with FERC under which it sells power generated by BC Hydro at wholesale in United States interstate commerce pursuant to market-based rate authority granted by FERC on September 24, 1997.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct, and that this Declaration was executed this 9th day of August 2002, at Belle Fourche, South Dakota.

/s/ Kenneth G. Peterson
KENNETH G. PETERSON

[Exhibits omitted]

TREATY BETWEEN THE UNITED STATES OF AMERICA AND CANADA RELATING TO COOPERATIVE DEVELOPMENT OF THE WATER RESOURCES OF THE COLUMBIA RIVER BASIN

The Governments of the United States of America and Canada

Recognizing that their peoples have, for many generations, lived together and cooperated with one another in many aspects of their national enterprises for the greater wealth and happiness of their respective nations, and

Recognizing that the Columbia River basin, as a part of the territory of both countries, contains water resources that are capable of contributing greatly to the economic growth and strength and to the general welfare of the two nations, and

Being desirous of achieving the development of those resources in a manner that will make the largest contribution to the economic progress of both countries and to the welfare of their peoples of which those resources are capable, and

Recognizing that the greatest benefit to each country can be secured by cooperative measures for hydroelectric power generation and flood control, which will make possible other benefits as well,

Have agreed as follows:

ARTICLE I

Interpretation

(1) In the Treaty, the expression

(a) "average critical period load factor" means the average of the monthly load factors during the critical stream flow period;

(b) "base system" means the plants, works and facilities listed in the table in Annex B as enlarged from time to time by the installation of additional generating facilities, together with any other plants, works or

facilities which may be constructed on the main stem of the Columbia River in the United States of America;

(c) "Canadian storage" means the storage provided by Canada under Article II;

(d) "critical stream flow period" means the period, beginning with the initial release of stored water from full reservoir conditions and ending with the reservoirs empty, when the water available from reservoir releases plus the natural stream flow is capable of producing the least amount of hydroelectric power in meeting system load requirements;

(e) "consumptive use" means use of water for domestic, municipal, stock-water, irrigation, mining or industrial purposes but does not include use for the generation of hydroelectric power;

(f) "dam" means a structure to impound water, including facilities for controlling the release of the impounded water;

(g) "entity" means an entity designated by either the United States of America or Canada under Article XIV and includes its lawful successor;

(h) "International Joint Commission" means the Commission established under Article VII of the Boundary Waters Treaty, 1909, or any body designated by the United States of America and Canada to succeed to the functions of the Commission under this Treaty;

(i) "maintenance curtailment" means an interruption or curtailment which the entity responsible therefor considers necessary for purposes of repairs, replacements, installations of equipment, performance of other maintenance work, investigations and inspections;

(j) "monthly load factor" means the ratio of the average load for a month to the integrated maximum load over one hour during that month;

(k) "normal full pool elevation" means the elevation to which water is stored in a reservoir by deliberate impoundment every year, subject to the availability of sufficient flow;

(l) "ratification date" means the day on which the instruments of ratification of the Treaty are exchanged;

(m) "storage" means the space in a reservoir which is usable for impounding water for flood control or for regulating stream flows for hydroelectric power generation;

(n) "Treaty" means this Treaty and its Annexes A and B;

(o) "useful life" means the time between the date of commencement of operation of a dam or facility and the date of its permanent retirement from service by reason of obsolescence or wear and tear which occurs notwithstanding good maintenance practices.

(2) The exercise of any power, or the performance of any duty, under the Treaty does not preclude a subsequent exercise or performance of the power or duty.

ARTICLE II

Development by Canada

(1) Canada shall provide in the Columbia River basin in Canada 15,500,000 acre-feet of storage usable for improving the flow of the Columbia River.

(2) In order to provide this storage, which in the Treaty is referred to as the Canadian storage, Canada shall construct dams:

(a) on the Columbia River near Mica Creek, British Columbia, with approximately 7,000,000 acre-feet of storage;

(b) near the outlet of Arrow Lakes, British Columbia, with approximately 7,100,000 acre-feet of storage; and

(c) on one or more tributaries of the Kootenay River in British Columbia downstream from the Canada-United States of America boundary with storage equivalent in effect to approximately 1,400,000 acre-feet of storage near Duncan Lake, British Columbia.

(3) Canada shall commence construction of the dams as soon as possible after the ratification date.

ARTICLE III

Development by the United States of America Respecting Power

(1) The United States of America shall maintain and operate the hydroelectric facilities included in the base system and any additional hydroelectric facilities constructed on the main stem of the Columbia River in the United States of America in a manner that makes the most effective use of the improvement in stream flow resulting from operation of the Canadian storage for hydroelectric power generation in the United States of America power system.

(2) The obligation in paragraph (1) is discharged by reflecting in the determination of downstream power benefits to which Canada is entitled the assumption that the facilities referred to in paragraph (1) were maintained and operated in accordance therewith.

ARTICLE IV

Operation by Canada

(1) For the purpose of increasing hydroelectric power generation in the United States of America and Canada, Canada shall operate the Canadian storage in accordance with Annex A and pursuant to hydroelectric operating plans made thereunder. For the purposes of this obligation an operating plan if it is either the first operating plan or if in the view of either the United States of America or Canada it departs substantially from the immediately preceding operating plan must, in order to be effective, be confirmed

by an exchange of notes between the United States of America and Canada.

(2) For the purpose of flood control until the expiration of sixty years from the ratification date, Canada shall

(a) operate in accordance with Annex A and pursuant to flood control operating plans made thereunder

(i) 80,000 acre-feet of the Canadian storage described in Article II(2)(a),

(ii) 7,100,000 acre-feet of the Canadian storage described in Article II(2)(b),

(iii) 1,270,000 acre-feet of the Canadian storage described in Article II(2)(c),

provided that the Canadian entity may exchange flood control storage under subparagraph (ii) for flood control storage additional to that under subparagraph (i), at the location described in Article II(2)(a), if the entities agree that the exchange would provide the same effectiveness for control of floods on the Columbia River at the Dalles, Oregon;

(b) operate any additional storage in the Columbia River basin in Canada, when called upon by an entity designated by the United States of America for that purpose, within the limits of existing facilities and as the entity requires to meet flood control needs for the duration of the flood period for which the call is made.

(3) For the purpose of flood control after the expiration of sixty years from the ratification date, and for so long as the flows in the Columbia River in Canada continue to contribute to potential flood hazard in the United States of America, Canada shall, when called upon by an entity designated by the United States of America for that purpose, operate within the limits of existing facilities any storage in the Columbia River basin in Canada as the entity requires to meet flood control needs for the duration of the flood period for which the call is made.

(4) The return to Canada for hydroelectric operation and the compensation to Canada for flood control operation shall be as set out in Articles V and VI.

(5) Any water resource development, in addition to the Canadian storage, constructed in Canada after the ratification date shall not be operated in a way that adversely affects the stream flow control in the Columbia River within Canada so as to reduce the flood control and hydroelectric power benefits which the operation of the Canadian storage in accordance with the operating plans in force from time to time would otherwise produce.

(6) As soon as any Canadian storage becomes operable Canada shall commence operation thereof in accordance with this Article and in any event shall commence full operation of the Canadian storage described in Article II(2)(b) and Article II(2)(c) within five years of the ratification date and shall commence full operation of the balance of the Canadian storage within nine years of the ratification date.

ARTICLE V

Entitlement to Downstream Power Benefits

(1) Canada is entitled to one half the downstream power benefits determined under Article VII.

(2) The United States of America shall deliver to Canada at a point on the Canada-United States of America boundary near Oliver, British Columbia, or at such other place as the entities may agree upon, the downstream power benefits to which Canada is entitled, less

(a) transmission loss,

(b) the portion of the entitlement disposed of under Article VIII(1), and

(c) the energy component described in Article VIII(4).

(3) The entitlement of Canada to downstream power benefits begins for any portion of Canadian storage upon commencement of its operation in accordance with Annex A

and pursuant to a hydroelectric operating plan made thereunder.

ARTICLE VI

Payment for Flood Control

(1) For the flood control provided by Canada under Article IV(2)(a) the United States of America shall pay Canada in United States funds:

(a) 1,200,000 dollars upon the commencement of operation of the storage referred to in subparagraph (a)(i) thereof,

(b) 52,100,000 dollars upon the commencement of operation of the storage referred to in subparagraph (a)(ii) thereof, and

(c) 11,100,000 dollars upon the commencement of operation of the storage referred to in subparagraph (a)(iii) thereof.

(2) If full operation of any storage is not commenced within the time specified in Article IV, the amount set forth in paragraph (1) of this Article with respect to that storage shall be reduced as follows:

(a) under paragraph (1)(a), 4,500 dollars for each month beyond the required time,

(b) under paragraph (1)(b), 192,100 dollars for each month beyond the required time, and

(c) under paragraph (1)(c), 40,800 dollars for each month beyond the required time.

(3) For the flood control provided by Canada under Article IV(2)(b) the United States of America shall pay Canada in United States funds in respect only of each of the first four flood periods for which a call is made 1,875,000 dollars and shall deliver to Canada in respect of each and every call made, electric power equal to the hydroelectric power lost by Canada as a result of operating the storage to meet the flood control need for which the call was made, delivery to be made when the loss of hydroelectric power occurs.

(4) For each flood period for which flood control is provided by Canada under Article IV(3) the United States of America shall pay Canada in United States funds:

(a) the operating cost incurred by Canada in providing the flood control, and

(b) compensation for the economic loss to Canada arising directly from Canada foregoing alternative uses of the storage used to provide the flood control.

(5) Canada may elect to receive in electric power, the whole or any portion of the compensation under paragraph (4)(b) representing loss of hydroelectric power to Canada.

ARTICLE VII

Determination of Downstream Power Benefits

(1) The downstream power benefits shall be the difference in the hydroelectric power capable of being generated in the United States of America with and without the use of Canadian storage, determined in advance, and is referred to in the Treaty as the downstream power benefits.

(2) For the purpose of determining the downstream power benefits:

(a) the principles and procedures set out in Annex B shall be used and followed;

(b) the Canadian storage shall be considered as next added to 13,000,000 acre-feet of the usable storage listed in Column 4 of the table in Annex B;

(c) the hydroelectric facilities included in the base system shall be considered as being operated to make the most effective use for hydroelectric power generation of the improvement in stream flow resulting from operation of the Canadian storage.

(3) The downstream power benefits to which Canada is entitled shall be delivered as follows:

(a) dependable hydroelectric capacity as scheduled by the Canadian entity, and

(b) average annual usable hydroelectric energy in equal amounts each month, or in accordance with a modification agreed upon under paragraph (4).

(4) Modification of the obligation in paragraph (3)(b) may be agreed upon by the entities.

ARTICLE VIII

Disposal of Entitlement to Downstream Power Benefits

(1) With the authorization of the United States of America and Canada evidenced by exchange of notes, portions of the downstream power benefits to which Canada is entitled may be disposed of within the United States of America. The respective general conditions and limits within which the entities may arrange initial disposals shall be set out in an exchange of notes to be made as soon as possible after the ratification date.

(2) The entities may arrange and carry out exchanges of dependable hydroelectric capacity and average annual usable hydroelectric energy to which Canada is entitled for average annual usable hydroelectric energy and dependable hydroelectric capacity respectively.

(3) Energy to which Canada is entitled may not be used in the United States of America except in accordance with paragraphs (1) and (2).

(4) The bypassing at dams on the main stem of the Columbia River in the United States of America of an amount of water which could produce usable energy equal to the energy component of the downstream power benefits to which Canada is entitled but not delivered to Canada under Article V or disposed of in accordance with paragraphs (1) and (2) at the time the energy component was not so delivered or disposed of, is conclusive evidence that such energy component was not used in the United States of America and that the entitlement of Canada to such energy component is satisfied.

ARTICLE IX

Variation of Entitlement to Downstream Power Benefits

(1) If the United States of America considers with respect to any hydroelectric power project planned on the main stem of the Columbia River between Priest Rapids Dam and McNary Dam that the increase in entitlement of Canada to downstream power benefits resulting from the operation of the project would produce a result which would not justify the United States of America in incurring the costs of construction and operation of the project, the United States of America and Canada at the request of the United States of America shall consider modification of the increase in entitlement.

(2) An agreement reached for the purposes of this Article shall be evidenced by an exchange of notes.

ARTICLE X

East-West Standby Transmission

(1) The United States of America shall provide in accordance with good engineering practice east-west standby transmission service adequate to safeguard the transmission from Oliver, British Columbia, to Vancouver, British Columbia, of the downstream power benefits to which Canada is entitled and to improve system stability of the east-west circuits in British Columbia.

(2) In consideration of the standby transmission service, Canada shall pay the United States of America in Canadian funds the equivalent of 1.50 United States dollars a year for each kilowatt of dependable hydroelectric capacity included in the downstream power benefits to which Canada is entitled.

(3) When a mutually satisfactory electrical coordination arrangement is entered into between the entities and confirmed by exchange of notes between the United States of America and Canada the obligation of Canada in paragraph (2) ceases.

ARTICLE XI

Use of Improved Stream Flow

(1) Improvement in stream flow in one country brought about by operation of storage constructed under the Treaty in the other country shall not be used directly or indirectly for hydroelectric power purposes except:

(a) in the case of use within the United States of America with the prior approval of the United States entity, and

(b) in the case of use within Canada with the prior approval of the authority in Canada having jurisdiction.

(2) The approval required by this Article shall not be given except upon such conditions, consistent with the Treaty, as the entity or authority considers appropriate.

ARTICLE XII

Kootenai River Development

(1) The United States of America for a period of five years from the ratification date, has the option to commence construction of a dam on the Kootenai River near Libby, Montana, to provide storage to meet flood control and other purposes in the United States of America. The storage reservoir of the dam shall not raise the level of the Kootenai River at the Canada-United States of America boundary above an elevation consistent with a normal full pool elevation at the dam of 2,459 feet, United States Coast and Geodetic Survey datum, 1929 General Adjustment, 1947 International Supplemental Adjustment.

(2) All benefits which occur in either country from the construction and operation of the storage accrue to the country in which the benefits occur.

(3) The United States of America shall exercise its option by written notice to Canada and shall submit with the notice a schedule of construction which shall include provision for commencement of construction, whether by way of

railroad relocation work or otherwise, within five years of the ratification date.

(4) If the United States of America exercises its option, Canada in consideration of the benefits accruing to it under paragraph (2) shall prepare and make available for flooding the land in Canada necessary for the storage reservoir of the dam within a period consistent with the construction schedule.

(5) If a variation in the operation of the storage is considered by Canada to be of advantage to it the United States of America shall, upon request, consult with Canada. If the United States of America determines that the variation would not be to its disadvantage it shall vary the operation accordingly.

(6) The operation of the storage by the United States of America shall be consistent with any order of approval which may be in force from time to time relating to the levels of Kootenay Lake made by the International Joint Commission under the Boundary Waters Treaty, 1909.

(7) Any obligation of Canada under this Article ceases if the United States of America, having exercised the option, does not commence construction of the dam in accordance with the construction schedule.

(8) If the United States of America exercises the option it shall commence full operation of the storage within seven years of the date fixed in the construction schedule for commencement of construction.

(9) If Canada considers that any portion of the land referred to in paragraph (4) is no longer needed for the purpose of this Article the United States of America and Canada, at the request of Canada, shall consider modification of the obligation of Canada in paragraph (4).

(10) If the Treaty is terminated before the end of the useful life of the dam Canada shall for the remainder of the useful life of the dam continue to make available for the storage reservoir of the dam any portion of the land made available under paragraph (4) that is not required by Can-

ada for purposes of diversion of the Kootenay River under Article XIII.

ARTICLE XIII

Diversions

(1) Except as provided in this Article neither the United States of America nor Canada shall, without the consent of the other evidenced by an exchange of notes, divert for any use, other than a consumptive use, any water from its natural channel in a way that alters the flow of any water as it crosses the Canada-United States of America boundary within the Columbia River basin.

(2) Canada has the right, after the expiration of twenty years from the ratification date, to divert not more than 1,500,000 acre-feet of water a year from the Kootenay River in the vicinity of Canal Flats, British Columbia, to the headwaters of the Columbia River, provided that the diversion does not reduce the flow of the Kootenay River immediately downstream from the point of diversion below the lesser of 200 cubic feet per second or the natural flow.

(3) Canada has the right, exercisable at any time during the period commencing sixty years after the ratification date and expiring one hundred years after the ratification date, to divert to the headwaters of the Columbia River any water which, in its natural channel, would flow in the Kootenay River across the Canada-United States of America boundary, provided that the diversion does not reduce the flow of the Kootenay River at the Canada-United States of America boundary near Newgate, British Columbia, below the lesser of 2,500 cubic feet per second or the natural flow.

(4) During the last twenty years of the period within which Canada may exercise the right to divert described in paragraph (3) the limitation on diversion is the lesser of 1,000 cubic feet per second or the natural flow.

(5) Canada has the right:

(a) if the United States of America does not exercise the option in Article XII(1), or

(b) if it is determined that the United States of America, having exercised the option, did not commence construction of the dam referred to in Article XII in accordance therewith or that the United States of America is in breach of the obligation in that Article to commence full operation of the storage,

to divert to the headwaters of the Columbia River any water which, in its natural channel, would flow in the Kootenay River across the Canada-United States of America boundary, provided that the diversion does not reduce the flow of the Kootenay River at the Canada-United States of America boundary near Newgate, British Columbia, below the lesser of 1,000 cubic feet per second or the natural flow.

(6) If a variation in the use of the water diverted under paragraph (2) is considered by the United States of America to be of advantage to it Canada shall, upon request, consult with the United States of America. If Canada determines that the variation would not be to its disadvantage it shall vary the use accordingly.

ARTICLE XIV

Arrangements for Implementation

(1) The United States of America and Canada shall each, as soon as possible after the ratification date, designate entities and when so designated the entities are empowered and charged with the duty to formulate and carry out the operating arrangements necessary to implement the Treaty. Either the United States of America or Canada may designate one or more entities. If more than one is designated the powers and duties conferred upon the entities by the Treaty shall be allocated among them in the designation.

(2) In addition to the powers and duties dealt with specifically elsewhere in the Treaty the powers and duties of the entities include:

(a) coordination of plans and exchange of information relating to facilities to be used in producing and obtaining the benefits contemplated by the Treaty,

(b) calculation of and arrangements for delivery of hydroelectric power to which Canada is entitled for providing flood control,

(c) calculation of the amounts payable to the United States of America for standby transmission services,

(d) consultation on requests for variations made pursuant to Articles XII(5) and XIII(6),

(e) the establishment and operation of a hydrometeorological system as required by Annex A,

(f) assisting and cooperating with the Permanent Engineering Board in the discharge of its functions,

(g) periodic calculation of accounts,

(h) preparation of the hydroelectric operating plans and the flood control operating plans for the Canadian storage together with determination of the downstream power benefits to which Canada is entitled,

(i) preparation of proposals to implement Article VIII and carrying out any disposal authorized or exchange provided for therein,

(j) making appropriate arrangements for delivery to Canada of the downstream power benefits to which Canada is entitled including such matters as load factors for delivery, times and points of delivery, and calculation of transmission loss,

(k) preparation and implementation of detailed operating plans that may produce results more advantageous to both countries than those that would arise from operation under the plans referred to in Annexes A and B.

(3) The entities are authorized to make maintenance curtailments. Except in case of emergency, the entity responsible for a maintenance curtailment shall give notice to the corresponding United States or Canadian entity of the curtailment, including the reason therefor and the probable duration thereof and shall both schedule the curtailment with a view to minimizing its impact and exercise due diligence to resume full operation.

(4) The United States of America and Canada may by an exchange of notes empower or charge the entities with any other matter coming within the scope of the Treaty.

ARTICLE XV

Permanent Engineering Board

(1) A Permanent Engineering Board is established consisting of four members, two to be appointed by Canada and two by the United States of America. The initial appointments shall be made within three months of the ratification date.

(2) The Permanent Engineering Board shall:

(a) assemble records of the flows of the Columbia River and the Kootenay River at the Canada-United States of America boundary;

(b) report to the United States of America and Canada whenever there is substantial deviation from the hydroelectric and flood control operating plans and if appropriate include in the report recommendations for remedial action and compensatory adjustments;

(c) assist in reconciling differences concerning technical or operational matters that may arise between the entities;

(d) make periodic inspections and require reports as necessary from the entities with a view to ensuring that the objectives of the Treaty are being met;

(e) make reports to the United States of America and Canada at least once a year of the results being achieved under the Treaty and make special reports concerning any matter which it considers should be brought to their attention;

(f) investigate and report with respect to any other matter coming within the scope of the Treaty at the request of either the United States of America or Canada.

(3) Reports of the Permanent Engineering Board made in the course of the performance of its functions under this Article shall be *prima facie* evidence of the facts therein contained and shall be accepted unless rebutted by other evidence.

(4) The Permanent Engineering Board shall comply with directions, relating to its administration and procedures, agreed upon by the United States of America and Canada as evidenced by an exchange of notes.

ARTICLE XVI

Settlement of Differences

(1) Differences arising under the Treaty which the United States of America and Canada cannot resolve may be referred by either to the International Joint Commission for decision.

(2) If the International Joint Commission does not render a decision within three months of the referral or within such other period as may be agreed upon by the United States of America and Canada, either may then submit the difference to arbitration by written notice to the other.

(3) Arbitration shall be by a tribunal composed of a member appointed by Canada, a member appointed by the United States of America and a member appointed jointly by the United States of America and Canada who shall be Chairman. If within six weeks of the delivery of a notice under paragraph (2) either the United States of America or Canada has failed to appoint its member, or they are

unable to agree upon the member who is to be Chairman, either the United States of America or Canada may request the President of the International Court of Justice to appoint the member or members. The decision of a majority of the members of an arbitration tribunal shall be the decision of the tribunal.

(4) The United States of America and Canada shall accept as definitive and binding and shall carry out any decision of the International Joint Commission or an arbitration tribunal.

(5) Provision for the administrative support of a tribunal and for remuneration and expenses of its members shall be as agreed in an exchange of notes between the United States of America and Canada.

(6) The United States of America and Canada may agree by an exchange of notes on alternative procedures for settling differences arising under the Treaty, including reference of any difference to the International Court of Justice for decision.

ARTICLE XVII

Restoration of Pre-Treaty Legal Status

(1) Nothing in this Treaty and no action taken or foregone pursuant to its provisions shall be deemed, after its termination or expiration, to have abrogated or modified any of the rights or obligations of the United States of America or Canada under then existing international law, with respect to the uses of the water resources of the Columbia River basin.

(2) Upon termination of this Treaty, the Boundary Waters Treaty, 1909, shall, if it has not been terminated, apply to the Columbia River basin, except insofar as the provisions of that Treaty may be inconsistent with any provision of this Treaty which continues in effect.

(3) Upon termination of this Treaty, if the Boundary Waters Treaty, 1909, has been terminated in accordance with Article XIV of that Treaty, the provisions of Article II of

that Treaty shall continue to apply to the waters of the Columbia River basin.

(4) If upon the termination of this Treaty Article II of the Boundary Waters Treaty, 1909, continues in force by virtue of paragraph (3) of this Article the effect of Article II of that Treaty with respect to the Columbia River basin may be terminated by either the United States of America or Canada delivering to the other one year's written notice to that effect; provided however that the notice may be given only after the termination of this Treaty.

(5) If, prior to the termination of this Treaty, Canada undertakes works usable for and relating to a diversion of water from the Columbia River basin, other than works authorized by or undertaken for the purpose of exercising a right under Article XIII or any other provision of this Treaty, paragraph (3) of this Article shall cease to apply one year after delivery by either the United States of America or Canada to the other of written notice to that effect.

ARTICLE XVIII

Liability for Damage

(1) The United States of America and Canada shall be liable to the other and shall make appropriate compensation to the other in respect of any act, failure to act, omission or delay amounting to a breach of the Treaty or of any of its provisions other than an act, failure to act, omission or delay occurring by reason of war, strike, major calamity, act of God, uncontrollable force or maintenance curtailment.

(2) Except as provided in paragraph (1) neither the United States of America nor Canada shall be liable to the other or to any person in respect of any injury, damage or loss occurring in the territory of the other caused by any act, failure to act, omission or delay under the Treaty whether the injury, damage or loss results from negligence or otherwise.

(3) The United States of America and Canada, each to the extent possible within its territory, shall exercise due diligence to remove the cause of and to mitigate the effect of any injury, damage or loss occurring in the territory of the other as a result of any act, failure to act, omission or delay under the Treaty.

(4) Failure to commence operation as required under Articles IV and XII is not a breach of the Treaty and does not result in the loss of rights under the Treaty if the failure results from a delay that is not wilful or reasonably avoidable.

(5) The compensation payable under paragraph (1):

(a) in respect of a breach by Canada of the obligation to commence full operation of a storage, shall be forfeiture of entitlement to downstream power benefits resulting from the operation of that storage, after operation commences, for a period equal to the period between the day of commencement of operation and the day when commencement should have occurred;

(b) in respect of any other breach by either the United States of America or Canada, causing loss of power benefits, shall not exceed the actual loss in revenue from the sale of hydroelectric power.

ARTICLE XIX

Period of Treaty

(1) The Treaty shall come into force on the ratification date.

(2) Either the United States of America or Canada may terminate the Treaty other than Article XIII (except paragraph (1) thereof), Article XVII and this Article at any time after the Treaty has been in force for sixty years if it has delivered at least ten years written notice to the other of its intention to terminate the Treaty.

(3) If the Treaty is terminated before the end of the useful life of a dam built under Article XII then, notwithstanding termination, Article XII remains in force until the end of the useful life of the dam.

(4) If the Treaty is terminated before the end of the useful life of the facilities providing the storage described in Article IV(3) and if the conditions described therein exist then, notwithstanding termination, Articles IV(3) and VI(4) and (5) remain in force until either the end of the useful life of those facilities or until those conditions cease to exist, whichever is the first to occur.

ARTICLE XX

Ratification

The instruments of ratification of the Treaty shall be exchanged by the United States of America and Canada at Ottawa, Canada.

ARTICLE XXI

Registration with the United Nations

In conformity with Article 102 of the Charter of the United Nations, the Treaty shall be registered by Canada with the Secretariat of the United Nations.

This Treaty has been done in duplicate copies in the English language.

IN WITNESS WHEREOF the undersigned, duly authorized by their respective Governments, have signed this Treaty at Washington, District of Columbia, United States of America, this 17th day of January, 1961.

FOR THE UNITED STATES OF AMERICA:

DWIGHT D. EISENHOWER
President of the United States of America

CHRISTIAN A. HERTER
Secretary of State

ELMER F. BENNETT
Under Secretary of the Interior

FOR CANADA:

JOHN G. DIEFENBAKER
Prime Minister of Canada

E. D. FULTON
Minister of Justice

A. D. P. HEENEY
Ambassador Extraordinary and Plenipotentiary of Canada to the United States of America

ANNEX A

PRINCIPLES OF OPERATION

General

1. The Canadian storage provided under Article II will be operated in accordance with the procedures described herein.

2. A hydrometeorological system, including snow courses, precipitation stations and stream flow gauges will be established and operated, as mutually agreed by the entities and in consultation with the Permanent Engineering Board, for use in establishing data for detailed programming of flood control and power operations. Hydrometeorological information will be made available to the entities in both countries for immediate and continuing use in flood control and power operations.

3. Sufficient discharge capacity at each dam to afford the desired regulation for power and flood control will be provided through outlet works and turbine installations as mutually agreed by the entities. The discharge capacity provided for flood control operations will be large enough to pass inflow plus sufficient storage releases during the evacuation period to provide the storage space required. The discharge capacity will be evaluated on the basis of full use of any conduits provided for that purpose plus one half the hydraulic capacity of the turbine installation at the time of commencement of the operation of storage under the Treaty.

4. The outflows will be in accordance with storage reservation diagrams and associated criteria established for flood control purposes and with reservoir-balance relationships established for power operations. Unless otherwise agreed by the entities the average weekly outflows shall not be less than 3,000 cubic feet per second at the dam described in Article II(2)(a), not less than 5,000 cubic feet per second at the dam described in Article II(2)(b) and not less than 1,000 cubic feet per second at the dam described in Article II(2)(c). These minimum average weekly releases

may be scheduled by the Canadian entity as required for power or other purposes.

Flood Control

5. For flood control operation, the United States entity will submit flood control operating plans which may consist of or include flood control storage reservation diagrams and associated criteria for each of the dams. The Canadian entity will operate in accordance with these diagrams or any variation which the entities agree will not derogate from the desired aim of the flood control plan. The use of these diagrams will be based on data obtained in accordance with paragraph 2. The diagrams will consist of relationships specifying the flood control storage reservations required at indicated times of the year for volumes of forecast runoff. After consultation with the Canadian entity the United States entity may from time to time as conditions warrant adjust these storage reservation diagrams within the general limitations of flood control operation. Evacuation of the storages listed hereunder will be guided by the flood control storage reservation diagrams and refill will be as requested by the United States entity after consultation with the Canadian entity. The general limitations of flood control operation are as follows:

(a) The Dam described in Article II(2)(a) – The reservoir will be evacuated to provide up to 80,000 acre-feet of storage, if required, for flood control use by May 1 of each year.

(b) The Dam described in Article II(2)(b) – The reservoir will be evacuated to provide up to 7,100,000 acre-feet of storage, if required, for flood control use by May 1 of each year.

(c) The Dam described in Article II(2)(c) – The reservoir will be evacuated to provide up to 700,000 acre-feet of storage, if required, for flood control use by April 1 of each year and up to 1,270,000 acre-feet of stor-

age, if required, for flood control use by May 1 of each year.

(d) The Canadian entity may exchange flood control storage provided in the reservoir referred to in subparagraph (b) for additional storage provided in the reservoir referred to in subparagraph (a) if the entities agree that the exchange would provide the same effectiveness for control of floods on the Columbia River at The Dalles, Oregon.

Power

6. For power generating purposes the 15,500,000 acre feet of Canadian storage will be operated in accordance with operating plans designed to achieve optimum power generation downstream in the United States of America until such time as power generating facilities are installed at the site referred to in paragraph 5(a) or at sites in Canada downstream therefrom.

7. After at-site power is developed at the site referred to in paragraph 5(a) or power generating facilities are placed in operation in Canada downstream from that site, the storage operation will be changed so as to be operated in accordance with operating plans designed to achieve optimum power generation at-site in Canada and downstream in the United States of America and Canada, including consideration of any agreed electrical coordination between the two countries. Any reduction in the downstream power benefits in the United States of America resulting from that change in operation of the Canadian storage shall not exceed in any one year the reduction in downstream power benefits in the United States of America which would result from reducing by 500,000 acre-feet the Canadian storage operated to achieve optimum power generation in the United States of America and shall not exceed at any time during the period of the Treaty the reduction in downstream power benefits in the United States of America which would result from similarly reducing the Canadian storage by 3,000,000 acre-feet.

8. After at-site power is developed at the site referred to in paragraph 5(a) or power generating facilities are placed in operation in Canada downstream from that site, storage may be operated to achieve optimum generation of power in the United States of America alone if mutually agreed by the entities in which event the United States of America shall supply power to Canada to offset any reduction in Canadian generation which would be created as a result of such operation as compared to operation to achieve optimum power generation at-site in Canada and downstream in the United States of America and Canada. Similarly, the storage may be operated to achieve optimum generation of power in Canada alone if mutually agreed by the entities in which event Canada shall supply power to the United States of America to offset any reduction in United States generation which would be created as a result of such operation as compared to operation to achieve optimum power generation at-site in Canada and downstream in the United States of America and Canada.

9. Before the first storage becomes operative, the entities will agree on operating plans and the resulting downstream power benefits for each year until the total of 15,500,000 acre-feet of storage in Canada becomes operative. In addition, commencing five years before the total of 15,500,000 acre-feet of storage is expected to become operative, the entities will agree annually on operating plans and the resulting downstream power benefits for the sixth succeeding year of operation thereafter. This procedure will continue during the life of the Treaty, providing to both the entities, in advance, an assured plan of operation of the Canadian storage and a determination of the resulting downstream power benefits for the next succeeding five years.

ANNEX B

DETERMINATION OF DOWNSTREAM POWER BENEFITS

1. The downstream power benefits in the United States of America attributable to operation in accordance with Annex A of the storage provided by Canada under Article II will be determined in advance and will be the estimated increase in dependable hydroelectric capacity in kilowatts for agreed critical stream flow periods and the increase in average annual usable hydroelectric energy output in kilowatt hours on the basis of an agreed period of stream flow record.

2. The dependable hydroelectric capacity to be credited to Canadian storage will be the difference between the average rates of generation in kilowatts during the appropriate critical stream flow periods for the United States of America base system, consisting of the projects listed in the table, with and without the addition of the Canadian storage, divided by the estimated average critical period load factor. The capacity credit shall not exceed the difference between the capability of the base system without Canadian storage and the maximum feasible capability of the base system with Canadian storage, to supply firm load during the critical stream flow periods.

3. The increase in the average annual usable hydroelectric energy will be determined by first computing the difference between the available hydroelectric energy at the United States base system with and without Canadian storage. The entities will then agree upon the part of available energy which is usable with and without Canadian storage, and the difference thus agreed will be the increase in average annual usable hydroelectric energy. Determination of the part of the energy which is usable will include consideration of existing and scheduled transmission facilities and the existence of markets capable of using the energy on a contractual basis similar to the then existing contracts. The part of the available energy which is considered usable shall be the sum of:

(a) the firm energy,

(b) the energy which can be used for thermal power displacement in the Pacific Northwest Area as defined in Paragraph 7, and

(c) the amount of the remaining portion of the available energy which is agreed by the entities to be usable and which shall not exceed in any event 40% of that remainder.

4. An initial determination of the estimated downstream power benefits in the United States of America from Canadian storage added to the United States base system will be made before any of the Canadian storage becomes operative. This determination will include estimates of the downstream power benefits for each year until the total of 15,500,000 acre-feet of Canadian storage becomes operative.

5. Commencing five years before the total of 15,500,000 acre-feet of storage is expected to become operative, estimates of downstream power benefits will be calculated annually for the sixth succeeding year on the basis of the assured plan of operation for that year.

6. The critical stream flow period and the details of the assured plan of operation will be agreed upon by the entities at each determination. Unless otherwise agreed upon by the entities, the determination of the downstream power benefits shall be based upon stream flows for the twenty year period beginning with July 1928 as contained in the report entitled Modified Flows at Selected Power Sites – Columbia River Basin, dated June 1957. No retroactive adjustment in downstream power benefits will be made at any time during the period of the Treaty. No reduction in the downstream power benefits credited to Canadian storage will be made as a result of the load estimate in the United States of America, for the year for which the determination is made, being less than the load estimate for the preceding year.

7. In computing the increase in dependable hydroelectric capacity and the increase in average annual hydroelectric

energy, the procedure shall be in accordance with the three steps described below and shall encompass the loads of the Pacific Northwest Area. The Pacific Northwest Area for purposes of these determinations shall be Oregon, Washington, Idaho and Montana west of the Continental Divide but shall exclude areas served on the ratification date by the California Oregon Power Company and Utah Power and Light Company.

Step I

The system for the period covered by the estimate will consist of the Canadian storage, the United States base system, any thermal installation operated in coordination with the base system, and additional hydroelectric projects which will provide storage releases usable by the base system or which will use storage releases that are usable by the base system. The installations included in this system will be those required, with allowance for adequate reserves, to meet the forecast power load to be served by this system in the United States of America, including the estimated flow of power at points of inter-connection with adjacent areas, subject to paragraph 3, plus the portion of the entitlement of Canada that is expected to be used in Canada. The capability of this system to supply this load will be determined on the basis that the system will be operated in accordance with the established operating procedures of each of the projects involved.

Step II

A determination of the energy capability will be made using the same thermal installation as in Step I, the United States base system with the same installed capacity as in Step I and Canadian storage.

Step III

A similar determination of the energy capability will be made using the same thermal installation as in Step I and the United States base system with the same installed capacity as in Step I.

8. The downstream power benefits to be credited to Canadian storage will be the differences between the determinations in Step II and Step III in dependable hydroelectric capacity and in average annual usable hydroelectric energy, made in accordance with paragraphs 2 and 3.

ANNEX B - TABLE - BASE SYSTEM

Project	Stream	Stream Mile Above Mouth	Usable Storage Acre-feet	Normal Elevation Pool Feet	Normal Elevation Tailwater Feet	Gross Head Feet	Initial Installation No. of Units	Initial Installation Plant Kilowatts (Nameplate)	Estimated Ultimate Installation No. of Units	Estimated Ultimate Installation Plant Kilowatts (Nameplate)
Hungry Horse	S. Fk. Flathead	5	3,161,000(4)	3560	3083	477	4	285,000	4	285,000
Kerr	Flathead	73	1,219,000	2893	2706	187	3	168,000	3	168,000
Thompson Falls	Clark Fork	209	Pondage	2396	2336	60	6	30,000	8	65,000
Noxon Rapids	Clark Fork	170	Pondage	2331	2179	152	4	336,000	5	420,000
Cabinet Gorge	Clark Fork	150	Pondage	2175	2078	97	4	200,000	6	300,000
Albeni Falls	Pend Oreille	90	1,155,000	2062	2034	28	3	42,600	3	42,600
Box Canyon	Pend Oreille	34	Pondage	2031	1989	42	4	60,000	4	60,000
Grand Coulee	Columbia	597	5,232,000(4)	1290(3)(4)	947	343	18	1,944,000	34	3,672,000
Chief Joseph	Columbia	546	Pondage	946	775	171	16	1,024,000	27	1,728,000
Wells(1)	Columbia	516	Pondage	775	707	68	6	400,000	10	666,700
Rocky Reach	Columbia	474	Pondage	707	614	93	7	711,550	11	1,118,150
Rock Island	Columbia	453	Pondage	608(3)	570	38	10	212,100	10	212,100
Wanapum	Columbia	415	Pondage	570	486	84	10	831,250	16	1,330,000
Priest Rapids	Columbia	397	Pondage	486	406	80	10	788,500	16	1,261,600
Brownlee	Snake	285	974,000	2077	1805	272	4	360,400	6	540,600
Oxbow	Snake	273	Pondage	1805	1683	122	4	190,000	5	237,500
Ice Harbor	Snake	10	Pondage	440	343	97	3	270,000	6	540,000
McNary	Columbia	292	Pondage	340	265	75	14	980,000	20	1,400,000
John Day	Columbia	216	Pondage	265	161	104	8	1,080,000	20	2,700,000
The Dalles	Columbia	192	Pondage	160	74	86	16(2)	1,119,000	24(2)	1,743,000
Bonneville	Columbia	145	Pondage	74	15	59	10	518,400	16	890,400
Kootenay Lake	Kootenay	16	673,000	1745	-	-	-	-	-	-
Chelan	Chelan	0	676,000	1100	707	393	2	48,000	4	96,000
Coeur d'Alene L.	Coeur d'Alene	102	223,000	2128	-	-	-	-	-	-
TOTAL 24 PROJECTS			13,313,000(4)			3128	166	11,598,800	258	19,476,650

(1) The Wells project is not presently under construction; when this project or any other project on the main stem of the Columbia River is completed, they will be integral components of the base system.
(2) Includes two 13,500 kilowatt units for fish attraction water.
(3) With flashboards.
(4) In determining the base system capabilities with and without Canadian storage the Hungry Horse reservoir storage will be limited to 3,008,000 acre-feet (normal full pool elevation of 3560 feet) and the Grand Coulee project will not include the effect of adding flashboards, limiting the storage to 5,072,000 acre-feet (normal full pool elevation of 1288 feet). The total usable storage of the base system as so adjusted will be 13,000,000 acre-feet.

BEST AVAILABLE COPY

WHEREAS the Senate of the United States of America by their resolution of March 16, 1961, two-thirds of the Senators present concurring therein, did advise and consent to the ratification of the aforesaid treaty;

WHEREAS the aforesaid treaty was duly ratified by the President of the United States of America on March 23, 1961, in pursuance of the aforesaid advice and consent of the Senate, and was duly ratified on the part of Canada;

WHEREAS it is provided in Article XIX of the aforesaid treaty that the treaty shall come into force on the ratification date and in Article XX of the aforesaid treaty that the instruments of ratification shall be exchanged at Ottawa;

AND WHEREAS the respective instruments of ratification of the aforesaid treaty were duly exchanged at Ottawa on September 16, 1964 by the respective Plenipotentiaries of the United States of America and Canada;

NOW, THEREFORE, be it known that I, Lyndon B. Johnson, President of the United States of America, do hereby proclaim and make public the aforesaid treaty to the end that the said treaty and each and every article and clause thereof may be observed and fulfilled, on and after September 16, 1964, with good faith by the United States of America and by the citizens of the United States of America and all other persons subject to the jurisdiction thereof.

IN TESTIMONY WHEREOF, I have hereunto set my hand and caused the Seal of the United States of America to be affixed.

DONE at the International Peace Arch, Blaine, Washington, this sixteenth day of September in the year of our Lord one thousand nine hundred sixty-four and of the Independence of the United States of America the one hundred eighty-ninth.

[Seal Omitted]

LYNDON B. JOHNSON

By the President:
DEAN RUSK
Secretary of State

The Canadian Secretary of State for External Affairs
to the Secretary of State

THE SECRETARY OF STATE FOR EXTERNAL AFFAIRS

CANADA

January 22, 1964

SIR,

I have the honour to refer to discussions which have been held between representatives of the Government of Canada and of the Government of the United States of America regarding the Treaty between Canada and the United States of America relating to cooperative development of the water resources of the Columbia River Basin signed at Washington on January 17, 1961. On the basis of these discussions, the Government of Canada understands that the two Governments have agreed to the terms of the attached Protocol.

I should like to propose that, if agreeable to your Government, this Note together with the Protocol attached thereto and your reply, shall constitute an agreement between our two Governments relating to the carrying out of the provisions of the Treaty with effect from the date of the exchange of instruments of ratification of the Treaty.

Accept, Sir, the renewed assurances of my highest consideration.

PAUL MARTIN
Secretary of State
for External Affairs

The Honourable
DEAN RUSK,
Secretary of State of the
United States of America,
Washington.

ANNEX TO EXCHANGE OF NOTES DATED JANUARY 22, 1964 BETWEEN THE GOVERNMENTS OF CANADA AND THE UNITED STATES REGARDING THE COLUMBIA RIVER TREATY

PROTOCOL

1. If the United States entity should call upon Canada to operate storage in the Columbia River Basin to meet flood control needs of the United States of America pursuant to Article IV(2)(b) or Article IV(3) of the Treaty, such call shall be made only to the extent necessary to meet forecast flood control needs in the territory of the United States of America that cannot adequately be met by flood control facilities in the United States of America in accordance with the following conditions:

(1) Unless otherwise agreed by the Permanent Engineering Board, the need to use Canadian flood control facilities under Article IV(2)(b) of the Treaty shall be considered to have arisen only in the case of potential floods which could result in a peak discharge in excess of 600,000 cubic feet per second at The Dalles, Oregon, assuming the use of all related storage in the United States of America existing and under construction in January 1961, storage provided by any dam constructed pursuant to Article XII of the Treaty and the Canadian storage described in Article IV(2)(a) of the Treaty.

(2) The United States entity will call upon Canada to operate storage under Article IV(3) of the Treaty only to control potential floods in the United States of America that could not be adequately controlled by all the related storage facilities in the United States of America existing at the expiration of 60 years from the ratification date but in no event shall Canada be required to provide any greater degree of flood control under Article IV(3) of the Treaty than that provided for under Article IV(2) of the Treaty.

(3) A call shall be made only if the Canadian entity has been consulted whether the need for flood control is, or is likely to be, such that it cannot be met by the use of flood control facilities in the United States of America in accordance with subparagraphs (1) or (2) of this paragraph. Within ten days of receipt of a call, the Canadian entity will communicate its acceptance, or its rejection or proposals for modification of the call, together with supporting considerations. When the communication indicates rejection or modification of the call the United States entity will review the situation in the light of the communication and subsequent developments and will then withdraw or modify the call if practicable. In the absence of agreement on the call or its terms the United States entity will submit the matter to the Permanent Engineering Board provided for under Article XV of the Treaty for assistance as contemplated in Article XV(2)(c) of the Treaty. The entities will be guided by any instructions issued by the Permanent Engineering Board. If the Permanent Engineering Board does not issue instructions within ten days of receipt of a submission the United States entity may renew the call for any part or all of the storage covered in the original call and the Canadian entity shall forthwith honour the request.

2. In preparing the flood control operating plans in accordance with paragraph 5 of Annex A of the Treaty, and in making calls to operate for flood control pursuant to Article IV(2)(b) and Article IV(3) of the Treaty, every effort will be made to minimize flood damage both in Canada and the United States of America.

3. The exchange of Notes provided for in Article VIII(1) of the Treaty shall take place contemporaneously with the exchange of the Instruments of Ratification of the Treaty provided for in Article XX of the Treaty.

4.(1) During the period and to the extent that the sale of Canada's entitlement to downstream power benefits within the United States of America as a result of an

exchange of Notes pursuant to Article VIII(1) of the Treaty relieves the United States of America of its obligation to provide east-west standby transmission service as called for by Article X(1) of the Treaty, Canada is not required to make payment for the east-west standby transmission service with regard to Canada's entitlement to downstream power benefits sold in the United States of America.

(2) The United States of America is not entitled to any payments of the character set out in subparagraph (1) of this paragraph in respect of that portion of Canada's entitlement to downstream power benefits delivered by the United States of America to Canada at any point on the Canada-United States of America boundary other than at a point near Oliver, British Columbia, and the United States of America is not required to provide the east-west standby transmission service referred to in subparagraph (1) of this paragraph in respect of the portion of Canada's entitlement to downstream power benefits which is so delivered.

5. Inasmuch as control of historic streamflows of the Kootenay River by the dam provided for in Article XII(1) of the Treaty would result in more than 200,000 kilowatt years per annum of energy benefit downstream in Canada, as well as important flood control protection to Canada, and the operation of that dam is therefore of concern to Canada, the entities shall, pursuant to Article XIV(2)(a) of the Treaty, cooperate on a continuing basis to coordinate the operation of that dam with the operation of hydroelectric plants on the Kootenay River and elsewhere in Canada in accordance with the provisions of Article XII(5) and Article XII(6) of the Treaty.

6.(1) Canada and the United States of America are in agreement that Article XIII(1) of the Treaty provides to each of them a right to divert water for a consumptive use.

(2) Any diversion of water from the Kootenay River when once instituted under the provisions of Article XIII of the Treaty is not subject to any limitation as to time.

7. As contemplated by Article IV(1) of the Treaty, Canada shall operate the Canadian storage in accordance with Annex A and hydroelectric operating plans made thereunder. Also, as contemplated by Annexes A and B of the Treaty and Article XIV(2)(k) of the Treaty, these operating plans before they are agreed to by the entities will be conditioned as follows:

(1) As the downstream power benefits credited to Canadian storage decrease with time, the storage required to be operated by Canada pursuant to paragraphs 6 and 9 of Annex A of the Treaty, will be that required to produce those benefits.

(2) The hydroelectric operating plans, which will be based on Step I of the studies referred to in paragraph 7 of Annex B of the Treaty, will provide a reservoir-balance relationship for each month for the whole of the Canadian storage committed rather than a separate relationship for each of the three Canadian storages. Subject to compliance with any detailed operating plan agreed to by the entities as permitted by Article XIV(2)(k) of the Treaty, the manner of operation which will achieve the specific storage or release of storage called for in a hydroelectric operating plan consistent with optimum storage use will be at the discretion of the Canadian entity.

(3) Optimum power generation at-site in Canada and downstream in Canada and the United States of America referred to in paragraph 7 of Annex A of the Treaty will include power generation at-site and downstream in Canada of the Canadian storages referred to in Article II(2) of the Treaty, power generation in Canada which is coordinated therewith, downstream power benefits from the Canadian storage which are produced in the United States of

America and measured under the terms of Annex B of the Treaty, power generation in the Pacific Northwest Area of the United States of America and power generation coordinated therewith.

8. The determination of downstream power benefits pursuant to Annex B of the Treaty, in respect of each year until the expiration of thirty years from the commencement of full operation in accordance with Article IV of the Treaty of that portion of the Canadian storage described in Article II of the Treaty which is last placed in full operation, and thereafter until otherwise agreed upon by the entities, shall be based upon stream flows for the thirty-year period beginning July 1928 as contained in the report entitled "Extension of Modified Flows Through 1958 – Columbia River Basin" and dated June 1960, as amended and supplemented to June 29, 1961, by the Water Management Subcommittee of the Columbia Basin Inter-Agency Committee.

9.(1) Each load used in making the determinations required by Steps II and III of paragraph 7 of Annex B of the Treaty shall have the same shape as the load of the Pacific Northwest area as that area is defined in that paragraph.

(2) The capacity credit of Canadian storage shall not exceed the difference between the firm load carrying capabilities of the projects and installations included in Step II of paragraph 7 of Annex B of the Treaty and the projects and installations included in Step III of paragraph 7 of Annex B of the Treaty.

10. In making all determinations required by Annex B of the Treaty the loads used shall include the power required for pumping water for consumptive use into the Banks Equalizing Reservoir of the Columbia Basin Federal Reclamation Project but mention of this particular load is not intended in any way to exclude from those loads any use of power that would normally be part of such loads.

11. In the event operation of any of the Canadian storages is commenced at a time which would result in the United States of America receiving flood protection for periods longer than those on which the amounts of flood control payments to Canada set forth in Article VI(1) of the Treaty are based, the United States of America and Canada shall consult as to the adjustments, if any, in the flood control payments that may be equitable in the light of all relevant factors. Any adjustment would be calculated over the longer period or periods on the same basis and in the same manner as the calculation of the amounts set forth in Article VI(1) of the Treaty. The consultations shall begin promptly upon the determination of definite dates for the commencement of operation of the Canadian storages.

12. Canada and the United States of America are in agreement that the Treaty does not establish any general principle or precedent applicable to waters other than those of the Columbia River Basin and does not detract from the application of the Boundary Waters Treaty, 1909, to other waters.

The Secretary of State to the Canadian Secretary of State for External Affairs

DEPARTMENT OF STATE
WASHINGTON
January 22, 1964

SIR:

I have the honor to refer to your note dated January 22, 1964, together with the Annex thereto regarding the Treaty between Canada and the United States of America relating to cooperative development of the water resources of the Columbia River Basin signed at Washington on January 17, 1961.

I wish to advise you that the Government of the United States of America agrees that your note with the Annex thereto, together with this reply, shall constitute an agreement between our two Governments relating to the carrying out of the provisions of the Treaty with effect from the date of the exchange of instruments of ratification of the Treaty.

Accept, Sir, the renewed assurances of my highest consideration.

DEAN RUSK

The Honorable
PAUL MARTIN, P.C., Q.C.,
Secretary of State for External Affairs,
Ottawa.

DEPARTMENT OF STATE
WASHINGTON
January 22, 1964

SIR:

I have the honor to refer to the discussions which have been held between representatives of the Government of Canada and of the Government of the United States of America regarding a sale of Canada's entitlement to downstream power benefits under the Treaty between Canada and the United States of America relating to cooperative development of the water resources of the Columbia River Basin, signed on January 17, 1961.

On the basis of these discussions my Government understands that the two Governments recognize that it would be in the public interest of both countries if Canada's entitlement to downstream power benefits could be disposed of, as contemplated by Article VIII of the Treaty, in accordance with general conditions and limits similar to those set out in detail in the attachment hereto, and further, that before such a disposition can be concluded and confirmed by the two Governments, additional steps must be taken in each country. Therefore, in furtherance of this aim, it is understood the two Governments are agreed that:

a) the Government of the United States will use its best efforts to arrange for disposition of Canada's entitlement to downstream power benefits within the United States of America in accordance with the general conditions and limits set forth in the attachment, and

b) the Government of Canada will use its best efforts to accomplish all those things which are considered necessary and preliminary to ratification of the Treaty as quickly as possible, including any arrangements for implementation and acceptance of the general conditions and limits set forth in the attachment.

I should like to propose that if agreeable to your Government this note together with the attachment and your reply shall constitute an agreement by our Governments relating to the Treaty.

Accept, Sir, the renewed assurances of my highest consideration.

DEAN RUSK

The Honorable
PAUL MARTIN, P.C., Q.C.,
Secretary of State for External Affairs,
Ottawa

ATTACHMENT RELATING TO TERMS OF SALE

A. The disposition shall consist of the downstream power benefits to which Canada is entitled under the Treaty, other than Canada's entitlement to downstream power benefits resulting from the construction or operation of a project described in Article IX of the Treaty, and shall be by way of a contract of sale authorized in accordance with Article VIII of the Treaty between the British Columbia Hydro and Power Authority and a single Purchaser containing provisions mutually satisfactory to the parties to the contract but shall be subject to and be operative in accordance with the following general conditions and limits:

1. (a) The storages described in Article II of the Treaty shall be fully operative for power purposes in accordance with the following schedule:

Storage described in Article II(2)(c) – approximately 1,400,000 acre feet on April 1, 1968,

Storage described in Article II(2)(b) – approximately 7,100,000 acre feet on April 1, 1969,

Storage described in Article II(2)(a) – approximately 7,000,000 acre feet on April 1, 1973.

(b) The period of sale of the entitlement allocated to each of the storages shall terminate and expire thirty years from the date on which that storage is required to be fully operative for power purposes in accordance with the schedule in subparagraph (a) of this paragraph.

(c) In the event any storage is not fully operative in accordance with the schedule in subparagraph (a) of this paragraph or if, during the period of sale, the storage is not operated as required by the hydroelectric operating plans agreed upon in accordance with the Treaty, as modified by any detailed operating plan agreed upon in accordance with Article XIV(2)(k) of

the Treaty, and the Canadian entitlement is thereby reduced, the British Columbia Hydro and Power Authority shall pay the Purchaser an amount equal to the cost it would have to incur to replace that part of the reduction in the Canadian entitlement which the vendees of the Purchaser could have used other than costs that could have been avoided had every reasonable effort to mitigate losses been made by the Purchaser, the United States entity and the owners of non-federal dams on the Columbia River in the United States of America. Alternatively, the British Columbia Hydro and Power Authority may, at its option, supply power to the Purchaser in an amount which assures that the Purchaser receives the capacity and energy which would have constituted that part of the reduction in the Canadian entitlement that the vendees of the Purchaser could have used if there had been no default, together with appropriate adjustments to reflect transmission costs in the United States of America, delivery to be made when the loss of power would otherwise have occurred.

If the assurance described in paragraph B.5. of this attachment is given to the Purchaser, the United States entity may succeed to all the rights of the Purchaser and its vendees to receive the entire Canadian entitlement, or that part that could be used by the vendees, and to be compensated by British Columbia Hydro and Power Authority in the event of non-receipt thereof. The United States entity agrees that before it purchases more costly power from any third party for the purpose of supplying the necessary amount of the Canadian entitlement to the Purchaser, it will first cause to be delivered to the Purchaser, or for

its account, any available surplus capacity or energy from the United States Federal Columbia River System and compensation to the United States entity because of such deliveries shall be computed by applying the then applicable rate schedules of the Bonneville Power Administration to the deliveries.

In the event of disagreement, determination of compensation in money or power due under this paragraph shall be resolved by arbitration and shall be confined to the actual loss incurred in accordance with the principles in this paragraph.

(d) For the purpose of allocating downstream power benefits among the Treaty storages from April 1, 1998 to April 1, 2003, the percentage of downstream power benefits allocated to each Treaty storage shall be the percentage of the total of the Treaty storages provided by that storage.

2. For the period of the sale the British Columbia Hydro and Power Authority shall operate and maintain the Treaty storages in accordance with the provisions of the Treaty.

3. (a) The purchase price of the entitlement shall be $254,400,000, in United States funds as of October 1, 1964, subject to adjustment, in the event of an earlier payment of all or part thereof, to the then present worth, at a discount rate of 4 1/2 percent per annum.

(b) The purchase price shall be paid to Canada contemporaneously with the exchange of ratifications of the Treaty and shall be applied towards the cost of constructing the Treaty projects through a transfer of the purchase price by Canada to the Government of British Columbia, pursuant to arrangements deemed sat-

isfactory to Canada, to be entered into between Canada and the Government of British Columbia.

4. If, during the period of the sale, there is any reduction in Canada's entitlement to downstream power benefits which results from action taken by the Canadian entity pursuant to paragraph 7 of Annex A of the Treaty, the British Columbia Hydro and Power Authority shall, by supplying power to the Purchaser, or otherwise as may be agreed, offset that reduction in a manner so that the Purchaser will be compensated therefor.

5. The Purchaser shall have and may exercise the rights of the British Columbia Hydro and Power Authority relating to the negotiation and conclusion with the United States entity, of proposals relating to the exchanges authorized by Article VIII(2) of the Treaty with respect to any portion of Canada's entitlement to downstream power benefits sold to the Purchaser.

B. The Notes to be exchanged pursuant to Article VIII(1) of the Treaty shall contain, inter alia, provisions incorporating the following requirements:

1. As soon as practicable after start of construction of each Treaty project the Canadian and United States entities shall agree upon a program for filling the storage provided by the project. The filling program shall have the objective of having the storages described in Article II(2)(c) and Article II(2)(b) of the Treaty full by September 1 following the date when the storages become fully operative and the storage provided by the dam mentioned in Article II(2)(a) of the Treaty full to 15 million acre-feet by September 1, 1975. This objective shall be reflected in the hydroelectric operating plans and shall take into account generating requirements at-site and downstream in Canada and the United States of America to meet loads.

2. In the event the United States of America becomes entitled to compensation in respect of a breach of the obligation under Article IV(6) of the Treaty to commence full operation of a storage, compensation payable to the United States of America under Article XVIII(5)(a) of the Treaty shall be made in an amount equal to 2.70 mills per kilowatt-hour, and 46 cents per kilowatt of dependable capacity for each month or fraction thereof, in United States funds, for and in lieu of the power which would have been forfeited under Article XVIII(5)(a) of the Treaty if Canada's entitlement to downstream power benefits had not been sold in the United States of America. Alternatively, Canada may, at its option, supply capacity and energy to the United States entity in an amount equal to that which would have been forfeited, together with appropriate adjustments to reflect transmission costs in the United States of America, delivery to be made when the loss would otherwise have occurred.

3. A diminution of Canada's entitlement to downstream power benefits sold in the United States of America which is directly attributable to a failure to comply with paragraph A.1(a) or paragraph A.2 of this attachment, in the absence of compensation therefor by the British Columbia Hydro and Power Authority, constitutes a breach of the Treaty by Canada and Article XVIII(5) of the Treaty and the exculpatory provisions in Article XVIII of the Treaty do not apply to such breach. Compensation or replacement of power as specified in paragraph A.1(c) of this attachment shall be made by Canada and shall be accepted by the United States of America as complete satisfaction of Canada's liability under this paragraph.

4. For any year in which Canada's entitlement to downstream power benefits is sold in the United

States of America, the United States entity may decide the amount of the downstream power benefits for purposes connected with the disposition thereof in the United States of America. This authorization, however, shall not affect the rights or relieve the obligations of the Canadian and United States entities relating to joint activities under the provisions of Article XIV and Annexes A and B of the Treaty; nor shall it apply to determination of compensation provided for in paragraph A.1(c) and paragraph B.2 of this attachment.

5. If necessary to accomplish the sale of Canada's entitlement to downstream power benefits in accordance with this attachment, the United States entity shall assure unconditionally the delivery to or for the account of the Purchaser, by appropriate exchange contracts, of an amount of power agreed between the United States entity and the Purchaser to be the equivalent of the entitlement during the period of the sale.

C. Canada shall designate the British Columbia Hydro and Power Authority as the Canadian entity for the purposes of Article XIV(1) of the Treaty.

The Canadian Secretary of State for External Affairs to the Secretary of State

THE SECRETARY OF STATE FOR EXTERNAL AFFAIRS
CANADA
January 22, 1964

SIR,

I have the honour to refer to your Note dated January 22, 1964, together with the attachment thereto regarding the Treaty between Canada and the United States of America relating to cooperative development of the water resources of the Columbia River Basin signed at Washington on January 17, 1961.

I wish to advise you that the Government of Canada agrees that your Note with the attachment thereto, together with this reply, shall constitute an agreement between our two Governments relating to the Treaty.

Accept, Sir, the renewed assurances of my highest consideration.

PAUL MARTIN
Secretary of State
for External Affairs

The Honourable
DEAN RUSK,
Secretary of State of the
United States of America,
Washington.

The Canadian Secretary of State for External Affairs to the American Ambassador

DEPARTMENT OF EXTERNAL AFFAIRS
CANADA
OTTAWA, *September 16, 1964*

No. 140

EXCELLENCY,

I have the honour to refer to the Treaty between Canada and the United States of America relating to cooperative development of the water resources of the Columbia River Basin signed at Washington on 17 January 1961, to the Protocol attached to my Note to the Honourable Dean Rusk, Secretary of State of the United States of America, dated 22 January 1964, and to the exchange of instruments of ratification of the Treaty which occurred today.

I also have the honour to refer to the discussions which have been held between representatives of the Government of Canada and of the Government of the United States of America in connection with the Exchange of Notes, dated 22 January 1964, regarding sale in the United States of America of Canada's entitlement under the Treaty to downstream power benefits.

My Government also understands that your Government has designated the Administrator of the Bonneville Power Administration, Department of the Interior, and the Division Engineer, North Pacific Division, Corps of Engineers, Department of the Army, as the United States Entity for the purposes of Article XIV(1) of the Treaty, and I would inform you that the Government of Canada has designated the British Columbia Hydro and Power Authority, a corporation incorporated in the Province of British Columbia by the British Columbia Hydro and Power Authority Act, 1964, as the Canadian Entity for the purposes of that Article. A copy of the designation is attached hereto.

On the basis of those discussions the Government of Canada proposes that the Canadian Entitlement Purchase

Agreement regarding the sale in the United States of America of the Canadian Entitlement under the Treaty to downstream power benefits entered into between the British Columbia Hydro and Power Authority and the Columbia Storage Power Exchange, the single purchaser referred to in the attachment to your Note of January 22, 1964, relating to the terms of the sale, a copy of which agreement is attached hereto, be authorized for the purposes of Article VIII(1) of the Treaty as a disposal of the Canadian Entitlement in the United States of America for the period and in accordance with the other terms and provisions set out in the Canadian Entitlement Purchase Agreement.

My Government also understands that your Government pursuant to paragraph E.5 in the attachment to Mr. Secretary Rusk's Note of January 22, 1964, relating to the terms of the sale, has determined that the United States Entity shall enter into and that it has entered into the Canadian Entitlement Exchange Agreements which agreements assure unconditionally the delivery for the account of the Columbia Storage Power Exchange of an amount of power agreed between the United States Entity and the Columbia Storage Power Exchange to be the equivalent of the Canadian Entitlement being sold under the Canadian Entitlement Purchase Agreement, and that the United States Entity has succeeded to all the rights and obligations of the Columbia Storage Power Exchange under the Canadian Entitlement Purchase Agreement other than the obligation to pay the purchase price, and further that the United States Entity has, pursuant to Article XI of the Treaty, approved the use of the improved stream flow in the United States of America brought about by the Treaty by entering into Canadian Entitlement Allocation Agreements with owners of non-Federal dams on the Columbia River.

My Government also understands that the two Governments are agreed that the Government of the United States of America undertakes that:

(1) So long as the Canadian Entitlement Exchange Agreements remain in force, the United States Entity will perform all the obligations of the Columbia Storage Power Exchange under the Canadian Entitlement Purchase Agreement other than the obligation to pay the purchase price specified in Section 3 of the Canadian Entitlement Purchase Agreement;

(2) In the event the Canadian Entitlement is reduced as a result of a failure on the part of the Canadian Entity to comply with Section 4 of the Canadian Entitlement Purchase Agreement and if the failure results other than from wilful omission by the Canadian Entity to fulfill its obligations under that agreement, the United States Entity will, without compensation, offset the effect of that failure by adjusting the operation of the portion of the System described in Step I of paragraph 7 of Annex B of the Treaty which is in the United States of America to the extent that the United States Entity can do so without loss of energy or capacity to that portion of the System; and

(3) If the procedure described in paragraph (2) above does not fully offset the effect of the failure, then to the extent the entities agree thereon, an additional offsetting adjustment in the operation of the portion of the System described in Step I of Annex B of the Treaty which is in the United States of America and which would result in only an energy loss will be made if the Canadian Entity delivers to the United States Entity energy sufficient to make up one half that energy loss.

(4) In order to make up any reduction in the Canadian Entitlement, which reduction is to be determined in accordance with Section 6 of the Canadian Entitlement Purchase Agreement, the United States Entity will cause to be delivered the least expensive capacity and energy available and, to the ex-

tent that it would be the least expensive available, will deliver, at the then applicable rate schedules of the Bonneville Power Administration, any available surplus capacity and energy from the United States Federal Columbia River System.

The Government of Canada also proposes that:

(5) Contemporaneously with the exchange of the instruments of ratification CSPE shall have paid to Canada the sum in United States funds of $253,929,534.25, being the equivalent of the sum of $254,400,000 in United States funds as of October 1, 1964 adjusted to September 16, 1964 at a discount rate of 4 1/2 percent per annum on the basis set out in the January 22, 1964 Exchange of Notes between our two Governments relating to the terms of sale, which sum shall be applied towards the cost of constructing the Treaty projects through a transfer of the sum by Canada to the Government of British Columbia pursuant to arrangements entered into between Canada and British Columbia.

(6) No modification or renewal of the Canadian Entitlement Purchase Agreement shall be effective until approved by the Governments of Canada and the United States of America, evidenced by an Exchange of Notes.

(7) The storages described in Article II of the Treaty shall be considered fully operative when the facilities for such storages are available and outlet facilities are operable for regulating flows in accordance with the flood control and hydroelectric operating plans.

(8) As soon as practicable, the Canadian and United States Entities shall agree upon a program for filling the storage provided by each of the Treaty projects. The filling program shall have the objective of having the storages described in Article II(2)(a),

Article II(2)(b), and Article II(2)(c) of the Treaty filled to the extent that usable storage, in the amounts provided for each storage in Article II of the Treaty is available by September 1 following the date when the storage becomes fully operative, and of having the storage provided by the dam described in Article II(2)(a) filled to 15 million acre-feet by September 1, 1975. This objective shall be reflected in the hydroelectric operating plans and shall take into account generating requirements at-site and downstream in Canada and the United States of America to meet loads and requirements for flood control.

(9) In the event the United States of America becomes entitled to compensation from Canada for loss of downstream power benefits, other than Canada's entitlement to downstream power benefits, in respect of a breach of the obligation under Article IV(6) of the Treaty to commence full operation of a storage, compensation payable to the United States of America under Article XVIII(5)(a) of the Treaty shall be made in an amount equal to 2.70 mills per kilowatt-hour of energy, and 46 cents per kilowatt of dependable capacity for each month or fraction thereof, in United States Funds, for and in lieu of the power which would have been forfeited under Article XVIII(5)(a) of the Treaty if Canada's entitlement to downstream power benefits had not been sold in the United States of America. The power which would have been forfeited shall be Canada's entitlement to downstream power benefits attributable to the particular storage had it commenced full operation in accordance with Article IV(6) of the Treaty and shall consist of (1) dependable capacity for the period of forfeiture and (2) that portion of average annual usuable energy which would have been available during the period of forfeiture assuming the energy to be available at

a uniform rate throughout the year. Alternatively, Canada may, at its option, offset the power for which compensation is to be made by delivering capacity and energy to the United States Entity, such delivery to be made, unless otherwise agreed by the entities, during the period of breach and at a uniform rate. The option for Canada to provide power in place of paying money shall permit Canada to make compensation partly by supplying power and partly by paying money, as may be mutually agreed by the entities.

(10) The Canadian Entity shall at reasonable intervals provide current reports to the United States Entity of the progress of construction of the Treaty storages. In the event there is a likelihood of delay in meeting the completion dates set out in Section 4 of the Canadian Entitlement Purchase Agreement or a delay which will give rise to a claim under paragraph (9) hereof the Canadian Entity will advise of the probability of power being available to make the compensation required.

(11) To the extent the Canadian Entity does not make compensation for a reduction in the Canadian Entitlement arising as a result of a failure to comply with Section 4 of the Canadian Entitlement Purchase Agreement, Canada shall make such compensation and such compensation shall be accepted in complete satisfaction of all claims arising out of the failure in respect of the reduction in the Canadian Entitlement for which such compensation was made.

(12) For any year in which Canada's Entitlement to downstream power benefits is sold to Columbia Storage Power Exchange, the United States Entity may decide the amount of the downstream power benefits for purposes connected with the disposition thereof in the United States of America. This authorization, however, shall neither affect the

rights or relieve the obligations of the Canadian and United States Entities relating to joint activities under the provisions of Article XIV and Annexes A and B of the Treaty, nor shall it apply to determination of compensation provided for in the Canadian Entitlement Purchase Agreement or pursuant to paragraph (9) hereof or to determination of the power benefits to which Canada is entitled.

(13) Any power delivered by the Canadian Entity or by Canada in accordance with the Canadian Entitlement Purchase Agreement or this Note shall be delivered at points of interconnection on the Canadian-United States border mutually acceptable to the entities. Appropriate adjustments shall be made to reflect transmission costs and transmission losses in the United States of America.

(14) Any dispute arising under the Canadian Entitlement Purchase Agreement, including, but without limitation, a dispute whether any event requiring compensation has occurred, the amount of compensation due or the amount of any overdelivery of power is agreed to be a difference under the Treaty to be settled in accordance with the provisions of Article XVI of the Treaty, and the parties to the Canadian Entitlement Purchase Agreement may avail themselves of the jurisdiction hereby conferred.

The Government of Canada therefore proposes that if agreeable to your Government this Note together with your reply thereto constitutes an agreement by our Governments relating to the Treaty with effect from the date of the exchange of instruments of ratification of the Treaty.

Accept, Excellency, the renewed assurances of my highest consideration.

PAUL MARTIN

Secretary of State
for External Affairs

His Excellency,
W. WALTON BUTTERWORTH,
Ambassador of the United States
of America,
Ottawa.

P.C. 1964-1407

Certified to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by His Excellency the Governor General on the 4th September, 1964.

CANADA
PRIVY COUNCIL

The Committee of the Privy Council, on the recommendation of the Right Honourable Lester B. Pearson, the Prime Minister, advise that Your Excellency may be pleased to designate the British Columbia Hydro and Power Authority, a corporation incorporated in the Province of British Columbia by the British Columbia Hydro and Power Authority Act 1964, as the Canadian entity for the purposes of Article XIV of a treaty dated January 17, 1961 at Washington, D.C. U.S.A. between Canada and the United States of America relating to co-operative development of the water resources of the Columbia River Basin, such designation to take effect on the date on which the Instruments of Ratification of the Treaty shall be exchanged.

/s/ [Illegible]
CLERK OF THE PRIVY COUNCIL

CANADIAN ENTITLEMENT PURCHASE AGREEMENT

This Agreement executed this thirteenth day of August, 1964, by and between COLUMBIA STORAGE POWER EXCHANGE, a nonprofit corporation organized under the laws of the State of Washington, hereinafter referred to as "CSPE",

and

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY, a corporation incorporated in the Province of British Columbia, Canada, by the British Columbia Hydro and Power Authority Act, 1964, hereinafter referred to as "the Authority".

WHEREAS:

A. The Governments of the United States of America and Canada are exchanging instruments of ratification of the Treaty Between Canada and the United States of America Relating to the Cooperative Development of the Water Resources of the Columbia River Basin Signed at Washington January 17, 1961. By an Exchange of Notes dated January 22, 1964, the two Governments agreed upon the terms of a Protocol with effect from the date of the exchange of instruments of ratification of the Treaty aforesaid (which Treaty and Protocol are hereinafter referred to as the "Treaty").

B. Under the terms of the Treaty, Canada is entitled to receive from the United States one half of the annual average usable energy and one half of the dependable hydroelectric capacity which can be realized in the United States each year as a result of use of the improved stream flow on the Columbia River created by storage to be constructed in Canada.

C. The Government of Canada and the Government of British Columbia have entered into an agreement dated 8 July, 1963, and a supplementary agreement dated 13 January, 1964, wherein it was agreed that all proprietary rights, title and interests arising under the Treaty, including all rights to downstream power benefits, belong to the

Government of British Columbia, and providing that Canada shall designate the Authority as the Canadian Entity as provided for in Article XIV of the Treaty. Pursuant to such agreement Canada is designating the Authority as the Canadian Entity.

D. The Authority is, by virtue of an Order in Council of the Province of British Columbia, dated August 7, 1964, required and authorized to exercise all the rights and powers granted to the Canadian Entity and to perform all the obligations imposed on the Canadian Entity by the Treaty and to enter into this Agreement.

E. CSPE is incorporated with the object of purchasing for a term of years Canada's rights to downstream power benefits under the Treaty and incurring indebtedness to finance such purchase and disposing of such rights under such arrangements as may be necessary to retire the corporate indebtedness and to pay the necessary expenses of CSPE incidental thereto.

F. The Governments of the United States of America and Canada, as contemplated by Article VIII of the Treaty and in pursuance of the Agreement of the two Governments contained in an Exchange of Notes dated January 22, 1964, relating thereto, are by an Exchange of Notes authorizing the disposition for a term of years within the United States of America of Canada's rights to downstream power benefits under the Treaty, which disposition when so authorized is to be effectuated by this Agreement in accordance with the provisions of the Treaty and documents supplementary thereto.

NOW, THEREFORE, it is agreed:

SECTION 1. TERM.

This Agreement shall be effective when authorized by the Governments of Canada and the United States of America by an Exchange of Notes pursuant to the Treaty and shall terminate at midnight on March 31, 2003.

SECTION 2. CONVEYANCE.

(1) The Authority does hereby sell, assign, and convey unto CSPE, and CSPE does hereby accept, the entitlement of Canada, as described in Article V(1) of the Treaty, to the downstream power benefits determined in accordance with Article VII of the Treaty, save and except the entitlement of Canada to the downstream power benefits resulting from the construction or operation of the project referred to in Article IX of the Treaty, for the following periods of time:

(a) The benefits resulting from the storage described in Article II(2)(c) of the Treaty (hereinafter referred to as Duncan Lake storage) for a period of 30 years commencing April 1, 1968; and

(b) The benefits resulting from the storage described in Article II(2)(b) of the Treaty (hereinafter referred to as Arrow Lakes storage) for a period of 30 years commencing April 1, 1969; and

(c) The benefits resulting from the storage described in Article II(2)(a) of the Treaty (hereinafter referred to as Mica Creek storage) for a period of 30 years commencing April 1, 1973.

(2) All of the entitlement to the downstream power benefits hereby conveyed for the aforementioned periods of time, without the reductions provided for in paragraph 7 of Annex A of the Treaty is hereinafter referred to as "the Canadian Entitlement".

(3) For the purpose of allocating downstream power benefits among the three Canadian storages provided for in the Treaty between April 1, 1998, and March 31, 2003, the percentage of downstream power benefits allocable to each of the said storages shall be the percentage of the total of the Canadian storages provided by that storage as set out in Article II of the Treaty.

SECTION 3. PAYMENT BY CSPE.

Contemporaneously with the exchange of the instruments of ratification, CSPE is causing to be paid to Can-

ada the sum, in United States funds, of $254,400,000.00 as of October 1, 1964, subject to adjustment in the event of an earlier payment thereof to the then present worth at a discount rate of 4 1/2 percent per annum, which sum shall be applied towards the cost of constructing the Treaty projects through a transfer of the sum by Canada to the Government of British Columbia pursuant to arrangements entered into between Canada and British Columbia. The Authority acknowledges that the receipt by Canada of the said sum is consideration for all the covenants of the authority in this Agreement and particularly the covenants to construct and operate the Treaty projects and is a complete discharge of CSPE for the full purchase price for the sale effected in Section 2 of this Agreement.

SECTION 4. COVENANTS.

(1) The Authority covenants and agrees with CSPE that it will undertake all requisite construction work in a good and workmanlike manner and that the storages described in Article II of the Treaty shall be fully operative for power purposes under this Agreement by the following dates:

(a) The Duncan Lake storage, April 1, 1968.

(b) The Arrow Lakes storage, April 1, 1969.

(c) The Mica Creek storage, April 1, 1973.

To be fully operative the facilities for such storages shall be completed to the extent that storages are available and outlet facilities are operable for regulating flows in accordance with flood control and hydroelectric operating plans as contemplated by the Treaty.

(2) The Authority covenants and agrees with CSPE that it will operate and maintain the Treaty storages in a good and workmanlike manner and in accordance with the provisions of the Treaty and any arrangements made pursuant to the Treaty and that it will not take any action prohibited by the Treaty.

SECTION 5. FLOOD CONTROL.

Nothing in this Agreement affects or alters the obligations, rights, and privileges of the entities under the

Treaty relating to operation and compensation for flood control and without restricting the generality of the foregoing, it is expressly agreed that any reduction in generation in the United States brought about by operation for flood control under the Treaty or any flood control arrangements made pursuant to the Treaty shall not be a reduction in the Canadian Entitlement for which compensation is required under this Agreement.

SECTION 6. COMPENSATION.

In the event the Canadian Entitlement is reduced as a result of a failure to comply with Section 4 of this Agreement:

(1) If the failure results other than from wilful omission by the Authority to fulfill its obligations under this Agreement, the United States Entity has agreed that it will, without compensation, offset the effect of that failure by adjusting the operation of the portion of the system described in Step I of paragraph 7 of Annex B of the Treaty which is in the United States to the extent that the United States Entity can do so without loss of energy or capacity to that portion of the System. If the foregoing procedure does not fully offset the effect of the failure, then to the extent the entities agree thereon, an additional offsetting adjustment in the operation of the portion of the system described in Step I of Annex B of the Treaty which is in the United States and which would result in only an energy loss will be made if the Authority delivers to the United States Entity energy sufficient to make up one half of that energy loss.

(2) If the effect of the failure is not entirely offset by the procedure specified in subsection (1) of this section, the reduction in the Canadian Entitlement shall be deemed to be one half of the difference in dependable hydroelectric capacity and average annual usable energy, capable of being produced by:

(a) the Step II system as specified in Annex B of the Treaty for the year in which the reduction occurs,

using the 30 year stream flow record provided for in Section 8 of the Protocol, with allowance in each of the 30 stream flow years for the effect of the Adjustment made in following the procedure specified in subsection (1) of this section and

(b) the same system for that year with the application of allowance in each of the 30 stream flow years for the effects of the occurrence causing the reduction

and the dependable hydroelectric capacity and average annual usable energy for the purpose of paragraph (b) of this subsection shall be calculated on the basis of an operation for optimum generation in the United States in the light of the offsetting adjustments and in the light of the effects of the occurrence causing the reduction.

(3) If the failure is the result of an occurrence to which the procedure specified in subsection (1) of this section is not applicable, the reduction shall be deemed to be one half of the difference in dependable hydroelectric capacity and average annual usable energy, capable of being produced by:

(a) the Step II system as specified in Annex B of the Treaty for the year in which the reduction occurs, using the 30 year stream flow record provided for in Section 8 of the Protocol, with no allowance for the effects of the occurrence causing the reduction and

(b) the same system for that year with the application of allowance in each of the 30 stream flow years for the effects of the occurrence causing the reduction

and the dependable hydroelectric capacity and average annual usable energy for the purposes of paragraph (b) of this subsection shall be calculated on the basis of an operation for optimum generation in the United States in the light of the effects of the occurrence causing the reduction.

(4) The Authority shall make compensation for reductions in the Canadian Entitlement, which reductions are to be determined in accordance with subsections (2) or (3)

of this section, in amounts equal to the cost of replacing the reductions in the Canadian Entitlement.

(5) The Authority may at its option, and in lieu of the monetary compensation payable under subsection (4) of this section, make compensation by supplying capacity and energy in an amount equal to the reduction in the Canadian Entitlement determined in accordance with subsections (2) or (3) of this section and adjusted to reflect transmission costs in the United States, delivery to be made when the loss would otherwise have occurred. The Authority may provide combinations of money, capacity and energy that are mutually acceptable in discharge of its obligation to make compensation under this section.

(6) The Authority shall give notice as soon as possible after it becomes apparent to it that compensation may be due and will at that time indicate the amounts of capacity and energy which it anticipates it will be able to make available.

(7) The United States Entity has agreed that, in order to make up any reduction in the Canadian Entitlement, it will cause to be delivered the least expensive capacity and energy available and, to the extent that it would be the least expensive, will deliver at the then applicable rate schedules of the Bonneville Power Administration any available surplus capacity and energy from the United States Federal Columbia River System. The cost of replacement referred to in subsection (4) of this section shall be determined as if the reduction was in fact made up as contemplated by the agreement referred to in the preceding sentence.

(8) Compensation made in accordance with this section shall be accepted as satisfaction of all claims against the Authority with respect to the reduction in the Canadian Entitlement for which such compensation was made and with respect to the act or omission of the Authority from which the right to such compensation arose.

(9) Any obligation to mitigate damages by the United States Entity, CSPE, the vendees of CSPE, and the owners of the non-Federal dams on the Columbia River in the United States is satisfied by compliance with this section.

(10) If the Canadian Entitlement Exchange Agreements referred to in Section 10 are not in force, compensation for a reduction in the Canadian Entitlement in accordance with subsections (2) and (3) of this section, is required only in respect of that part of the reduction in the Canadian Entitlement which CSPE and its vendees could have used and only in respect of costs that could not have been avoided had every reasonable effort to mitigate been made by CSPE and the owners of non-Federal dams on the Columbia River in the United States.

SECTION 7. REDUCTION OF THE CANADIAN ENTITLEMENT IN ACCORDANCE WITH THE TREATY.

Any reduction in the Canadian Entitlement resulting from action taken pursuant to paragraph 7 of Annex A of the Treaty shall be determined in accordance with subsection (3) of Section 6 of this Agreement and unless otherwise agreed, the Authority shall offset the reduction by supplying capacity and energy equal to the reduction, the energy to be supplied in equal monthly amounts.

SECTION 8. SETTLEMENT OF DISPUTES.

Any dispute arising under this Agreement, including but without limitation a dispute as to whether any event requiring compensation has occurred, the amount of compensation due or the amount of any overdelivery of power, is agreed to be a difference under the Treaty to be settled in accordance with the provisions of Article XVI of the Treaty. Any determination of compensation in money or power due shall be confined to the actual loss incurred in accordance with the principles contained in Section 6 of this Agreement.

SECTION 9. EXCHANGES OF CAPACITY AND ENERGY.

(1) The Authority agrees that CSPE shall have and may exercise the rights of the Authority as the Canadian En-

tity relating to the negotiation and conclusion with the United States Entity of proposals relating to the exchanges authorized by Article VIII(2) of the Treaty with respect to any portion of the Canadian Entitlement.

(2) It is agreed that no exchange of capacity for energy or of energy for capacity or modification in the delivery of energy in equal amounts each month as provided in the Treaty shall be taken into account in the determination of compensation to be made by the Authority pursuant to this Agreement.

SECTION 10. EXCHANGE AGREEMENTS.

The Bonneville Power Administrator acting as the Administrator and for and on behalf of the United States Entity has by entering into Canadian Entitlement Exchange Agreements, assured unconditionally the delivery to the vendees of CSPE by appropriate exchange contracts of an amount of power agreed between the United States Entity and CSPE to be the equivalent of the Canadian Entitlement, and the United States Entity, while those Agreements are in force, will succeed to all the rights of CSPE and its vendees to receive the entire Canadian Entitlement and all other rights of CSPE arising from this Agreement. CSPE therefore instructs the Authority, until otherwise notified, to make any compensation whether in power or money required to be made by the Authority pursuant to Section 6 or Section 7 of this Agreement to the United States Entity. CSPE agrees that any settlement of a claim for compensation or arrangement entered into pursuant to this Agreement by the United States Entity shall be binding on CSPE.

SECTION 11. PAYMENTS.

(1) The Authority shall pay any amount in United States funds determined to be due in accordance with the terms hereof within thirty days of receipt of an invoice for such amount.

(2) Should the Authority deliver power in excess of the amount required as compensation, then appropriate adjustments shall be made in kind or in money.

SECTION 12. APPROVALS.

No modification or renewal of this Agreement shall be effective until approved by the Governments of Canada and the United States of America, evidenced by an Exchange of Notes.

SECTION 13. DELIVERIES.

Any power delivered by the Authority pursuant to this Agreement shall be delivered at mutually acceptable points of interconnection on the Canadian-United States border. Appropriate adjustments shall be made to reflect transmission costs and transmission losses in the United States.

SECTION 14. NOTICES.

Any notices shall be in writing and shall be delivered or mailed prepaid as follows:

Columbia Storage Power Exchange,
20 N. Main Street
East Wenatchee, Washington, U.S.A.

United States Entity
c/o Bonneville Power Administration
P. O. Box 3621
Portland, Oregon 97208 U.S.A.

British Columbia Hydro and Power Authority
970 Burrard Street
Vancouver 1, British Columbia, Canada,

or such other address as may be signified by notice to the others.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the day and year first above written.

(SEAL)
Attest

_____

BRITISH COLUMBIA HYDRO
AND POWER AUTHORITY
By_____
Chairman
By_____
Secretary

(SEAL)
Attest

_____

COLUMBIA STORAGE
POWER EXCHANGE
By_____

The American Ambassador to the Canadian Secretary of State for External Affairs

EMBASSY OF THE
UNITED STATES OF AMERICA
Ottawa, September 16, 1964

No. 75

SIR,

I have the honor to refer to your note No. 140 of September 16, 1964, regarding the disposal of the Canadian entitlement to downstream power benefits in the United States, in accordance with Article VIII(1) of the Treaty between the United States of America and Canada relating to the cooperative development of the water resources of the Columbia River Basin, signed at Washington, January 17, 1961.

I wish to advise you that the Government of the United States of America has designated the Administrator of the Bonneville Power Administration, Department of the Interior, and the Division Engineer, North Pacific Division, Corps of Engineers, Department of the Army, as the United States Entity for the purposes of Article XIV(1) of the Treaty. A copy of the designation is attached to this note.

I wish also to advise that the Government of the United States of America confirms the proposals and understandings set forth in your note, and agrees that your note, together with this reply, shall constitute an agreement between our two Governments relating to the implementation of the provisions of the Treaty with effect from the date of the exchange of instruments of ratification of the Treaty.

Accept, Sir, the renewed assurances of my highest consideration.

W.W. BUTTERWORTH

Enclosure:
As stated.

The Honorable
PAUL MARTIN, P.C., Q.C.,
Secretary of State for External Affairs,
Ottawa.

EXECUTIVE ORDER No. 11177.
PROVIDING FOR CERTAIN ARRANGEMENTS UNDER THE COLUMBIA RIVER TREATY

WHEREAS the treaty between the United States and Canada relating to cooperative development of the water resources of the Columbia River Basin (signed at Washington, D.C., on January 17, 1961; Executive C, 87th Congress, 1st Session) has come into force; and

WHEREAS Article XIV of such treaty (hereinafter referred to as the Treaty) provides for the designation of certain entities which are empowered and charged with the duty to formulate and carry out the operating arrangements necessary to implement the Treaty, and authorizes the United States of America to designate one or more of such entities; and

WHEREAS Article XV of the Treaty authorizes the United States of America to appoint two members of the Permanent Engineering Board established by that Article:

NOW, THEREFORE, by virtue of the authority vested in me by the Treaty and by the Constitution and statutes, and as President of the United States, it is hereby ordered as follows:

PART I. UNITED STATES ENTITY

SECTION 101. Designation of Entity. The Administrator of the Bonneville Power Administration, Department of the Interior, and the Division Engineer, North Pacific Division, Corps of Engineers, Department of the Army, are hereby designated as an entity under Article XIV of the Treaty, to be known as the United States Entity for the Columbia River Treaty (hereinafter referred to as the Entity). The designated Administrator shall be the Chairman of the Entity.

SECTION 102. Functions of the Entity. The Entity shall have the functions set forth therefor in Article XIV, and in other provisions, of the Treaty.

SECTION 103. Departmental responsibilities. This order shall not affect (1) the respective responsibilities of the

Department of the Army and the Department of the Interior for project operation and administration, (2) the respective responsibilities of the Secretary of the Army and the Chief of Engineers for the supervision and direction of the Department of the Army and the Office of the Chief of Engineers, or (3) the responsibility of the Secretary of the Interior for the supervision and direction of the Department of the Interior.

PART II. UNITED STATES SECTION, PERMANENT ENGINEERING BOARD

SECTION 201. Appointment of members of the Permanent Engineering Board. (a) The Secretary of the Interior and the Secretary of the Army shall each appoint one person as a United States member of the Permanent Engineering Board established by Article XV of the Treaty.

(b) Each such person shall be selected from among appropriately qualified individuals, who at the time of appointment may be, but need not necessarily be, officers or employees of the United States, and shall serve as a member of the Board during the pleasure of the appointing Secretary.

SECTION 202. Alternate members. In addition to the two members to be appointed under the provisions of Section 201 of this order, there shall be two alternate United States members of the Permanent Engineering Board. The provisions of Section 201 of this order shall apply to the selection, appointment, and service of the alternate members.

SECTION 203. United States Section. The members and alternate members appointed under the foregoing provisions of this Part shall compose the United States Section, Permanent Engineering Board, Columbia River Treaty, hereinafter referred to as the United States Section. The member appointed by the Secretary of the Army under Section 201(a) of this order shall be the Chairman of the United States Section.

SECTION 204. Assistance to the United States Section. With the consent of the respective heads thereof, departments and agencies of the Federal Government may, upon the request of the United States Section and to the extent not inconsistent with law, furnish assistance needed by the Section in connection with the performance of its functions.

PART III. GENERAL

SECTION 301. Reservation. There is hereby reserved the right to modify or terminate any or all of the provisions of this order.

LYNDON B. JOHNSON

THE WHITE HOUSE

September 16, 1964

The Canadian Secretary of State for External Affairs to the American Ambassador

DEPARTMENT OF EXTERNAL AFFAIRS
CANADA

No. 141 OTTAWA, *September 16, 1964*

EXCELLENCY,

I have the honour to refer to my Note of January 22, 1964 addressed to the Honourable Dean Rusk, Secretary of State of the United States of America and the Protocol attached thereto regarding a Treaty between Canada and the United States of America relating to cooperative development of the water resources of the Columbia River Basin signed at Washington on 17 January, 1961 and to Mr. Secretary Rusk's reply of the same date. This Exchange of Notes relating to the carrying out of the provisions of the Treaty provides expressly that it shall come into effect from the date of the exchange of instruments of ratification of the Treaty.

The instruments of ratification of the Treaty having been exchanged on this 16th day of September 1964, I should like to propose that our two Governments confirm that the Intergovernmental Agreement set out in the said Exchange of Notes has now come into full force and effect. I should like to propose further that this Note together with your reply shall constitute an agreement between our two Governments with effect from this 16th day of September 1964.

Accept, Excellency, the renewed assurances of my highest consideration.

PAUL MARTIN
Secretary of State
for External Affairs

His Excellency,
W. WALTON BUTTERWORTH,
Ambassador of the United States
of America,
Ottawa.

The American Ambassador to the Canadian Secretary of State for External Affairs

EMBASSY OF THE
UNITED STATES OF AMERICA
Ottawa, September 16, 1964

No. 76

SIR,

I have the honor to refer to your Note No. 141 dated September 16, 1964 regarding the Treaty between Canada and the United States of America relating to cooperative development of the water resources of the Columbia River Basin signed at Washington on January 17, 1961. I wish to advise you that the Government of the United States of America confirms that the Exchange of Notes with Annex of January 22, 1964 referred to in your note has now come into full force and effect. The Government of the United States of America further agrees that your note together with this reply shall constitute an agreement between our two Governments relating to the carrying out of the provisions of the Treaty with effect from this 16th day of September 1964.

Accept, Sir, the renewed assurances of my highest consideration.

W.W. BUTTERWORTH

The Honorable
PAUL MARTIN, P.C., Q.C.,
Secretary of State for External Affairs,
Ottawa.

TREATY BETWEEN CANADA AND THE UNITED STATES OF AMERICA RELATING TO THE SKAGIT RIVER AND ROSS LAKE, AND THE SEVEN MILE RESERVOIR ON THE PEND D'OREILLE RIVER

Washington, April 2, 1984

TRAITE ENTRE LE CANADA ET LES ETATS-UNIS D'AMERIQUE CONCERNANT LA RIVIERE SKAGIT ET LE LAC ROSS, AINSI QUE LE RESERVOIR SEVEN MILE DE LA RIVIERE PEND D'OREILLE

Washington, le 2 avril 1984

TREATY BETWEEN CANADA AND THE UNITED STATES OF AMERICA RELATING TO THE SKAGIT RIVER AND ROSS LAKE, AND THE SEVEN MILE RESERVOIR ON THE PEND D'OREILLE RIVER

The Government of Canada and the Government of the United States of America,

Bearing in mind the purpose of the Boundary Waters Treaty, in particular with respect to the prevention of disputes between Canada and the United States regarding the use of boundary waters;

Recognizing the desirability of preserving the natural environment of the Skagit Valley, in the Province of British Columbia;

Acknowledging the importance to the economic growth and development of the City of Seattle of the electrical power that would have been produced by the raising of the Ross Dam;

Noting with approval the Agreement dated March 30, 1984 between the Province of British Columbia and the City of Seattle developed under the auspices of the International Joint Commission; and

Having encouraged the achievement of such a settlement and being desirous of securing and promoting the cooperative measures undertaken therein,

Have agreed as follows:

ARTICLE I

DEFINITIONS

For purposes of the Treaty:

(a) "Agreement" means the Agreement entered into between British Columbia and Seattle on March 30, 1984, and its several appendices, contained in the Annex to this Treaty;

(b) "Boundary Waters Treaty" means the Treaty between Great Britain and the United States relating to Boundary Waters and Questions Arising between Canada and the United States, dated January 11, 1909;

(c) "British Columbia" means the Province of British Columbia, Canada;

(d) "Seattle" means the City of Seattle, in the State of Washington, United States of America;

(e) "Normal full pool elevation" means the water level at the dam determined by means of measuring elevation above mean sea level, excluding variations due to wind and wave action on surface water and variations resulting from extraordinary flood conditions, and which in the case of Ross Lake is based on the City of Seattle Ross Dam datum for Ross Lake and in the case of the Seven Mile Reservoir is based on the Geodetic Survey of Canada datum for the Seven Mile Reservoir; and

(f) "Arbitration tribunal" means an arbitration tribunal established pursuant to section 10 and Appendix C of the Agreement.

ARTICLE II

AUTHORIZATIONS

1. (a) In the event that British Columbia discontinues its obligation to deliver electrical power to Seattle under the Agreement or an arbitration tribunal determines that conduct of British Columbia constitutes a material breach of the Agreement, Seattle is, in accordance with and subject to the terms and conditions specified in this Treaty and the Agreement, authorized to raise the level of Ross Lake on the Skagit River by means of construction and operation of Ross Dam to a normal full pool elevation of 1725.0 feet, subject to the terms and conditions contained in Opinion No. 808 of the United States Federal Power Commission issued July 5, 1977, Opinion No. 808A of the Federal Energy Regulatory Commission issued August 2, 1978, and in other actions of the Federal Energy Regulatory Commission in implementation thereof, including provisions for High Ross Dam in the relicensing by the Federal Energy Regulatory Commission of Seattle's Project No. 553, of which Ross Dam is a part.

(b) This authority is to be exercised by Seattle at its option, without regard to any United States law, decision, regulation or order which might be argued as limiting or negating this authority, including provisions of the Federal Power Act relating to the time in which project construction must otherwise commence or to the term of license, or any other provision, during the term of this Treaty, provided that full compensation to British Columbia in the event of operation of Ross Lake at a normal full pool elevation of 1725.0 feet shall be as provided for in the Agreement and in lieu of any conditions in Opinions 808 and 808A or in any licensing order or orders for Project No. 553 with respect to British Columbia, and provided further that unless and until the normal full pool elevation of Ross lake is thus raised, Seattle shall not be required to pay any increase in annual charges attendant thereupon under section 10(e) of the Federal Power Act.

2. The Government of Canada shall obtain the legislative or other authority necessary to enable British Columbia to export electrical power in accordance with the terms and conditions of the Agreement.

ARTICLE III

WATER LEVELS AT THE BOUNDARY

1. During the term of this Treaty, Seattle shall be permitted to operate Ross Lake so as to maintain the level of the Skagit River at the Canada-United States boundary at an elevation consistent with a normal full pool elevation of 1602.5 feet.

2. During the term of this Treaty, British Columbia shall be permitted to operate Seven Mile Reservoir so as to raise the level of the Pend d'Oreille River at the Canada-United States boundary to an elevation consistent with a normal full pool elevation of 1730.0 feet, subject to the delivery by British Columbia to Seattle of energy and capacity lost at Boundary Dam due to tailwater encroachment by the Seven Mile Reservoir.

3. In the event that Seattle discontinues its obligation under the Agreement to make payments to British Columbia for the delivery of electrical power or an arbitration tribunal determines that conduct of Seattle constitutes a material breach of the Agreement, Seattle shall not be permitted to operate Ross Lake so as to raise the level of the Skagit River at the Canada-United States boundary above a level consistent with a normal full pool elevation of 1602.5 feet.

4. In the event that British Columbia discontinues its obligation under the Agreement to deliver electrical power to Seattle or an arbitration tribunal determines that conduct of British Columbia constitutes a material breach of the Agreement, Seattle shall be permitted to operate Ross Lake so as to raise the level of the Skagit River at the Canada-United States boundary to an elevation consistent with a normal full pool elevation of 1725.0 feet.

5. In the event that either Seattle or British Columbia discontinues its respective obligations in accordance with paragraph 3 or paragraph 4 of this Article, or an arbitration tribunal determines that conduct of either constitutes a material breach of the Agreement, British Columbia nonetheless shall be permitted to operate Seven Mile Reservoir so as to maintain the level of the Pend d'Oreille River at the Canada-United States boundary at an elevation consistent with a normal full pool elevation of 1730.0 feet.

6. Notwithstanding paragraph 5 of this Article, in the event that British Columbia discontinues its obligation under the Agreement to deliver electrical power to Seattle or an arbitration tribunal determines that conduct of British Columbia constitutes a material breach of the Agreement, and the obligation of British Columbia to make payment under subparagraph 9(C)(iv) of the Agreement is not met, British Columbia shall not be permitted to operate Seven Mile Reservoir so as to maintain the level of the Pend d'Oreille River at the Canada-United States bound-

ary above a level consistent with a normal full pool elevation of 1715.0 feet.

ARTICLE IV

OBLIGATIONS ON DISCONTINUANCE

1. Canada and the United States shall ensure, in the manner set out in this Article, that financial obligations on the part of British Columbia and Seattle in the event of discontinuance of certain of their respective obligations under the Agreement, are met.

2. (a) In the event that British Columbia discontinues its obligation under the Agreement to deliver electrical power to Seattle or an arbitration tribunal determines that British Columbia is in material breach of the Agreement, Canada shall endeavor to ensure that British Columbia pays to Seattle any amount owing under subparagraph 9(C)(iv) of the Agreement. In the event that an arbitration tribunal determines the amount owed by British Columbia to Seattle under that subparagraph and that British Columbia has failed to discharge its obligation to pay that amount to Seattle, Canada shall pay such amount to the United States in United States currency.

(b) Payment of such amount by Canada shall be in full satisfaction of British Columbia's obligations under subparagraph 9(C)(iv) of the Agreement.

3. (a) In the event that Seattle discontinues its obligation under the Agreement to make payments to British Columbia, or an arbitration tribunal determines that Seattle is in material breach of the Agreement, the United States shall endeavor to ensure that Seattle pays to British Columbia any amount owing under Section 5 of the Agreement. In the event that an arbitration tribunal determines the amount owed by Seattle to British Columbia under that section and that Seattle has failed to discharge its obligation to pay that amount to British Columbia, the United States shall pay such amount to Canada in United States currency.

(b) Payment of such amount by the United States shall be in full satisfaction of Seattle's obligations under Section 5 of the Agreement.

ARTICLE V

TRANSMISSION OF POWER

The rate imposed by the Bonneville Power Administration, or its successor agency, for the transmission of power from British Columbia to Seattle pursuant to the Agreement shall be no greater than if the power were generated, and transmitted on the Federal Columbia River Power System, wholly within the State of Washington.

ARTICLE VI

EFFECT ON BOUNDARY WATERS TREATY

1. Nothing in this Treaty shall affect the application of the Boundary Waters Treaty except as provided in paragraph 2 of this Article.

2. During the period in which this Treaty is in force, the powers, functions and responsibilities of the International Joint Commission under Article IV, paragraph 1 and Article VIII of the Boundary Waters Treaty shall not apply to the Skagit River and Ross Lake or to the Pend d'Oreille River and the Seven Mile Reservoir.

ARTICLE VII

AMENDMENT OF THE AGREEMENT

Amendments to the Agreement proposed by British Columbia and Seattle shall be submitted to the Parties for timely review. Amendments that, in the view of either Party, would affect the rights and obligations of the Parties under the Treaty shall enter into force only upon an exchange of notes between the Parties. All other amendments shall enter into force as agreed upon between British Columbia and Seattle.

ARTICLE VIII

ENTRY INTO FORCE AND DURATION

This Treaty shall enter into force on the date the Parties exchange instruments of ratification, and shall remain in

force until terminated by agreement of the Parties, or by either Party upon not less than twelve months written notice which may be given no earlier than January 1, 2065.

IN WITNESS WHEREOF, the undersigned, being duly authorized by their respective Governments, have signed this Treaty.

DONE at Washington in duplicate, in the English and French languages, both texts being equally authentic, this second day of April, 1984.

FOR THE GOVERNMENT OF CANADA:

/s/ ALLAN J. MACEACHEN

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA:

/s/ GEORGE P. SCHULTZ

MEMORANDUM

December 18, 1984

To: Randy Hardy, Mac Macdonald, John Saven, Kathy Fletcher, Jerry Gorman, May Gerstle, C. T. Rochey, Del Mercure

From: Arthur T. Lane

Subject: Ratification for the Skagit River Treaty

This will advise you that on Friday, December 14, 1984 instruments of ratification for the Skagit River Treaty were exchanged in Ottawa between John Fraser, Minister of Fisheries for Canada, and Ambassador Robinson for the U.S.A. This means that the Treaty and all associated contracts, including the B.C.-Seattle agreement, and the indemnification agreements between the Province and Canada and between Seattle and the federal government, are now in full force and effect.

NORTH AMERICAN FREE TRADE AGREEMENT
BETWEEN
THE GOVERNMENT OF THE UNITED STATES OF AMERICA,
THE GOVERNMENT OF CANADA
AND
THE GOVERNMENT OF THE UNITED MEXICAN STATES

[Done at Washington on December 8 and 17, 1992,
at Ottawa on December 11 and 17, 1992
and at Mexico City on December 14 and 17, 1992]

* * * * *

PART FIVE
INVESTMENT, SERVICES, AND RELATED MATTERS
Chapter Eleven
Investment
Section A – Investment

* * * * *

Article 1102: National Treatment

1. Each Party shall accord to investors of another Party treatment no less favorable than that it accords, in like circumstances, to its own investors with respect to the establishment, acquisition, expansion, management, conduct, operation, and sale or other disposition of investments.

2. Each Party shall accord to investments of investors of another Party treatment no less favorable than that it accords, in like circumstances, to investments of its own investors with respect to the establishment, acquisition, expansion, management, conduct, operation, and sale or other disposition of investments.

3. The treatment accorded by a Party under paragraphs 1 and 2 means, with respect to a state or province, treatment no less favorable than the most favorable treatment accorded, in like circumstances, by that state or province to investors, of the Party of which it forms a part.

4. For greater certainty, no Party may:

   (a) impose on an investor of another Party a requirement that a minimum level of equity in an enterprise in the territory of the Party be held by its nationals, other than nominal qualifying shares for directors or incorporators of corporations; or

   (b) require an investor of another Party, by reason of its nationality, to sell or otherwise dispose of an investment in the territory of the Party.

Article 1103: Most-Favored-Nation Treatment

1. Each Party shall accord to investors of another Party treatment no less favorable than that it accords, in like circumstances, to investors of any other Party or of a non-Party with respect to the establishment, acquisition, expansion, management, conduct, operation, and sale or other disposition of investments.

2. Each Party shall accord to investments of investors of another Party treatment no less favorable than that it accords, in like circumstances, to investments of investors of any other Party or of a non-Party with respect to the establishment, acquisition, expansion, management, conduct, operation, and sale or other disposition of investments.

* * * * *

STATUTORY PROVISIONS INVOLVED

28 U.S.C. § 1441 provides:

§ 1441. Actions removable generally

(a) Except as otherwise expressly provided by Act of Congress, any civil action brought in a State court of which the district courts of the United States have original jurisdiction, may be removed by the defendant or the defendants, to the district court of the United States for the district and division embracing the place where such action is pending. For purposes of removal under this chapter, the citizenship of defendants sued under fictitious names shall be disregarded.

(b) Any civil action of which the district courts have original jurisdiction founded on a claim or right arising under the Constitution, treaties or laws of the United States shall be removable without regard to the citizenship or residence of the parties. Any other such action shall be removable only if none of the parties in interest properly joined and served as defendants is a citizen of the State in which such action is brought.

(c) Whenever a separate and independent claim or cause of action within the jurisdiction conferred by section 1331 of this title is joined with one or more otherwise nonremovable claims or causes of action, the entire case may be removed and the district court may determine all issues therein, or, in its discretion, may remand all matters in which State law predominates.

(d) Any civil action brought in a State court against a foreign state as defined in section 1603(a) of this title may be removed by the foreign state to the district court of the United States for the district and division embracing the place where such action is pending. Upon removal the action shall be tried by the court without jury. Where removal is based upon this subsection, the time limitations of section 1446(b) of this chapter may be enlarged at any time for cause shown.

(e)(1) Notwithstanding the provisions of subsection (b) of this section, a defendant in a civil action in a State court may remove the action to the district court of the United States for the district and division embracing the place where the action is pending if –

(A) the action could have been brought in a United States district court under section 1369 of this title; or

(B) the defendant is a party to an action which is or could have been brought, in whole or in part, under section 1369 in a United States district court and arises from the same accident as the action in State court, even if the action to be removed could not have been brought in a district court as an original matter.

The removal of an action under this subsection shall be made in accordance with section 1446 of this title, except that a notice of removal may also be filed before trial of the action in State court within 30 days after the date on which the defendant first becomes a party to an action under section 1369 in a United States district court that arises from the same accident as the action in State court, or at a later time with leave of the district court.

(2) Whenever an action is removed under this subsection and the district court to which it is removed or transferred under section 1407(j) has made a liability determination requiring further proceedings as to damages, the district court shall remand the action to the State court from which it had been removed for the determination of damages, unless the court finds that, for the convenience of parties and witnesses and in the interest of justice, the action should be retained for the determination of damages.

(3) Any remand under paragraph (2) shall not be effective until 60 days after the district court has issued an order determining liability and has certified its intention to remand the removed action for the determination of damages. An appeal with respect to the liability determi-

nation of the district court may be taken during that 60-day period to the court of appeals with appellate jurisdiction over the district court. In the event a party files such an appeal, the remand shall not be effective until the appeal has been finally disposed of. Once the remand has become effective, the liability determination shall not be subject to further review by appeal or otherwise.

(4) Any decision under this subsection concerning remand for the determination of damages shall not be reviewable by appeal or otherwise.

(5) An action removed under this subsection shall be deemed to be an action under section 1369 and an action in which jurisdiction is based on section 1369 of this title for purposes of this section and sections 1407, 1697, and 1785 of this title.

(6) Nothing in this subsection shall restrict the authority of the district court to transfer or dismiss an action on the ground of inconvenient forum.

(f) The court to which a civil action is removed under this section is not precluded from hearing and determining any claim in such civil action because the State court from which such civil action is removed did not have jurisdiction over that claim.

28 U.S.C. § 1442 provides:

§ 1442. Federal officers or agencies sued or prosecuted

(a) A civil action or criminal prosecution commenced in a State court against any of the following may be removed by them to the district court of the United States for the district and division embracing the place wherein it is pending:

(1) The United States or any agency thereof or any officer (or any person acting under that officer) of the United States or of any agency thereof, sued in an official or individual capacity for any act under color of such office or on account of any right, title or authority claimed under any Act of Congress for the apprehension or punishment of criminals or the collection of the revenue.

(2) A property holder whose title is derived from any such officer, where such action or prosecution affects the validity of any law of the United States.

(3) Any officer of the courts of the United States, for any act under color of office or in the performance of his duties;

(4) Any officer of either House of Congress, for any act in the discharge of his official duty under an order of such House.

(b) A personal action commenced in any State court by an alien against any citizen of a State who is, or at the time the alleged action accrued was, a civil officer of the United States and is a nonresident of such State, wherein jurisdiction is obtained by the State court by personal service of process, may be removed by the defendant to the district court of the United States for the district and division in which the defendant was served with process.

The Foreign Sovereign Immunities Act of 1976, 28 U.S.C. § 1603, provides:

§ 1603. Definitions

For purposes of this chapter –

(a) A "foreign state", except as used in section 1608 of this title, includes a political subdivision of a foreign state or an agency or instrumentality of a foreign state as defined in subsection (b).

(b) An "agency or instrumentality of a foreign state" means any entity –

(1) which is a separate legal person, corporate or otherwise, and

(2) which is an organ of a foreign state or political subdivision thereof, or a majority of whose shares or other ownership interest is owned by a foreign state or political subdivision thereof, and

(3) which is neither a citizen of a State of the United States as defined in section 1332(c) and (e) of this title, nor created under the laws of any third country.

(c) The "United States" includes all territory and waters, continental or insular, subject to the jurisdiction of the United States.

(d) A "commercial activity" means either a regular course of commercial conduct or a particular commercial transaction or act. The commercial character of an activity shall be determined by reference to the nature of the course of conduct or particular transaction or act, rather than by reference to its purpose.

(e) A "commercial activity carried on in the United States by a foreign state" means commercial activity carried on by such state and having substantial contact with the United States.

The Foreign Sovereign Immunities Act of 1976, 28 U.S.C. § 1605, provides:

§ 1605. General exceptions to the jurisdictional immunity of a foreign state

(a) A foreign state shall not be immune from the jurisdiction of courts of the United States or of the States in any case –

(1) in which the foreign state has waived its immunity either explicitly or by implication, notwithstanding any withdrawal of the waiver which the foreign state may purport to effect except in accordance with the terms of the waiver;

. (2) in which the action is based upon a commercial activity carried on in the United States by the foreign state; or upon an act performed in the United States in connection with a commercial activity of the foreign state elsewhere; or upon an act outside the territory of the United States in connection with a commercial activity of the foreign state elsewhere and that act causes a direct effect in the United States;

(3) in which rights in property taken in violation of international law are in issue and that property or any property exchanged for such property is present in the United States in connection with a commercial activity carried on in the United States by the foreign state; or that property or any property exchanged for such property is owned or operated by an agency or instrumentality of the foreign state and that agency or instrumentality is engaged in a commercial activity in the United States;

(4) in which rights in property in the United States acquired by succession or gift or rights in immovable property situated in the United States are in issue;

(5) not otherwise encompassed in paragraph (2) above, in which money damages are sought against a

foreign state for personal injury or death, or damage to or loss of property, occurring in the United States and caused by the tortious act or omission of that foreign state or of any official or employee of that foreign state while acting within the scope of his office or employment; except this paragraph shall not apply to –

(A) any claim based upon the exercise or performance or the failure to exercise or perform a discretionary function regardless of whether the discretion be abused, or

(B) any claim arising out of malicious prosecution, abuse of process, libel, slander, misrepresentation, deceit, or interference with contract rights;

(6) in which the action is brought, either to enforce an agreement made by the foreign state with or for the benefit of a private party to submit to arbitration all or any differences which have arisen or which may arise between the parties with respect to a defined legal relationship, whether contractual or not, concerning a subject matter capable of settlement by arbitration under the laws of the United States, or to confirm an award made pursuant to such an agreement to arbitrate, if (A) the arbitration takes place or is intended to take place in the United States, (B) the agreement or award is or may be governed by a treaty or other international agreement in force for the United States calling for the recognition and enforcement of arbitral awards, (C) the underlying claim, save for the agreement to arbitrate, could have been brought in a United States court under this section or section 1607, or (D) paragraph (1) of this subsection is otherwise applicable; or

(7) not otherwise covered by paragraph (2), in which money damages are sought against a foreign state for personal injury or death that was caused by an act of torture, extrajudicial killing, aircraft sabotage, hostage taking, or the provision of material support or resources (as defined in section 2339A of title 18) for such an act if

such act or provision of material support is engaged in by an official, employee, or agent of such foreign state while acting within the scope of his or her office, employment, or agency, except that the court shall decline to hear a claim under this paragraph –

(A) if the foreign state was not designated as a state sponsor of terrorism under section 6(j) of the Export Administration Act of 1979 (50 U.S.C. App. 2405(j)) or section 620A of the Foreign Assistance Act of 1961 (22 U.S.C. 2371) at the time the act occurred, unless later so designated as a result of such act or the act is related to Case Number 1:00CV03110(EGS) in the United States District Court for the District of Columbia; and

(B) even if the foreign state is or was so designated, if –

(i) the act occurred in the foreign state against which the claim has been brought and the claimant has not afforded the foreign state a reasonable opportunity to arbitrate the claim in accordance with accepted international rules of arbitration; or

(ii) neither the claimant nor the victim was a national of the United States (as that term is defined in section 101(a)(22) of the Immigration and Nationality Act) when the act upon which the claim is based occurred.

(b) A foreign state shall not be immune from the jurisdiction of the courts of the United States in any case in which a suit in admiralty is brought to enforce a maritime lien against a vessel or cargo of the foreign state, which maritime lien is based upon a commercial activity of the foreign state: Provided, That –

(1) notice of the suit is given by delivery of a copy of the summons and of the complaint to the person, or his agent, having possession of the vessel or cargo against which the maritime lien is asserted; and if the vessel or

cargo is arrested pursuant to process obtained on behalf of the party bringing the suit, the service of process of arrest shall be deemed to constitute valid delivery of such notice, but the party bringing the suit shall be liable for any damages sustained by the foreign state as a result of the arrest if the party bringing the suit had actual or constructive knowledge that the vessel or cargo of a foreign state was involved; and

(2) notice to the foreign state of the commencement of suit as provided in section 1608 of this title is initiated within ten days either of the delivery of notice as provided in paragraph (1) of this subsection or, in the case of a party who was unaware that the vessel or cargo of a foreign state was involved, of the date such party determined the existence of the foreign state's interest.

(c) Whenever notice is delivered under subsection (b)(1), the suit to enforce a maritime lien shall thereafter proceed and shall be heard and determined according to the principles of law and rules of practice of suits in rem whenever it appears that, had the vessel been privately owned and possessed, a suit in rem might have been maintained. A decree against the foreign state may include costs of the suit and, if the decree is for a money judgment, interest as ordered by the court, except that the court may not award judgment against the foreign state in an amount greater than the value of the vessel or cargo upon which the maritime lien arose. Such value shall be determined as of the time notice is served under subsection (b)(1). Decrees shall be subject to appeal and revision as provided in other cases of admiralty and maritime jurisdiction. Nothing shall preclude the plaintiff in any proper case from seeking relief in personam in the same action brought to enforce a maritime lien as provided in this section.

(d) A foreign state shall not be immune from the jurisdiction of the courts of the United States in any action brought to foreclose a preferred mortgage, as defined in

the Ship Mortgage Act, 1920 (46 U.S.C. 911 and following). Such action shall be brought, heard, and determined in accordance with the provisions of that Act and in accordance with the principles of law and rules of practice of suits in rem, whenever it appears that had the vessel been privately owned and possessed a suit in rem might have been maintained.

(e) For purposes of paragraph (7) of subsection (a) –

(1) the terms "torture" and "extrajudicial killing" have the meaning given those terms in section 3 of the Torture Victim Protection Act of 1991;

(2) the term "hostage taking" has the meaning given that term in Article 1 of the International Convention Against the Taking of Hostages; and

(3) the term "aircraft sabotage" has the meaning given that term in Article 1 of the Convention for the Suppression of Unlawful Acts Against the Safety of Civil Aviation.

(f) No action shall be maintained under subsection (a)(7) unless the action is commenced not later than 10 years after the date on which the cause of action arose. All principles of equitable tolling, including the period during which the foreign state was immune from suit, shall apply in calculating this limitation period.

(g) Limitation on Discovery. –

(1) In general. – (A) Subject to paragraph (2), if an action is filed that would otherwise be barred by section 1604, but for subsection (a)(7), the court, upon request of the Attorney General, shall stay any request, demand, or order for discovery on the United States that the Attorney General certifies would significantly interfere with a criminal investigation or prosecution, or a national security operation, related to the incident that gave rise to the cause of action, until such time as the

Attorney General advises the court that such request, demand, or order will no longer so interfere.

(B) A stay under this paragraph shall be in effect during the 12-month period beginning on the date on which the court issues the order to stay discovery. The court shall renew the order to stay discovery for additional 12-month periods upon motion by the United States if the Attorney General certifies that discovery would significantly interfere with a criminal investigation or prosecution, or a national security operation, related to the incident that gave rise to the cause of action.

(2) Sunset. – (A) Subject to subparagraph (B), no stay shall be granted or continued in effect under paragraph (1) after the date that is 10 years after the date on which the incident that gave rise to the cause of action occurred.

(B) After the period referred to in subparagraph (A), the court, upon request of the Attorney General, may stay any request, demand, or order for discovery on the United States that the court finds a substantial likelihood would –

(i) create a serious threat of death or serious bodily injury to any person;

(ii) adversely affect the ability of the United States to work in cooperation with foreign and international law enforcement agencies in investigating violations of United States law; or

(iii) obstruct the criminal case related to the incident that gave rise to the cause of action or undermine the potential for a conviction in such case.

(3) Evaluation of evidence. – The court's evaluation of any request for a stay under this subsection filed by the Attorney General shall be conducted ex parte and in camera.

(4) Bar on motions to dismiss. – A stay of discovery under this subsection shall constitute a bar to the granting of a motion to dismiss under rules 12(b)(6) and 56 of the Federal Rules of Civil Procedure.

(5) Construction. – Nothing in this subsection shall prevent the United States from seeking protective orders or asserting privileges ordinarily available to the United States.

No. 5

CONSTITUTION ACT, 1867

(*THE BRITISH NORTH AMERICA ACT, 1867*)

[Note: The present short title was substituted for the original short title (in italics) by the *Constitution Act, 1982* (No. 44 *infra*).]

30 & 31 Victoria, c. 3 (U.K.)

An Act for the Union of Canada, Nova Scotia, and New Brunswick, and the Government thereof; and for Purposes connected therewith

[29th March 1867]

Whereas the Provinces of Canada, Nova Scotia, and New Brunswick have expressed their Desire to be federally united into One Dominion under the Crown of the United Kingdom of Great Britain and Ireland, with a Constitution similar in Principle to that of the United Kingdom:

And whereas such a Union would conduce to the Welfare of the Provinces and promote the Interests of the British Empire:

And whereas on the Establishment of the Union by Authority of Parliament it is expedient, not only that the Constitution of the Legislative Authority in the Dominion be provided for, but also that the Nature of the Executive Government therein be declared:

And whereas it is expedient that Provision be made for the eventual Admission into the Union of other Parts of British North America:

Be it therefore enacted and declared by the Queen's most Excellent Majesty, by and with the Advice and Consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the Authority of the same, as follows:

[Note: The enacting clause was repealed by the *Statute Law Revision Act, 1893* (No. 17 *infra*).]

* * * * *

VIII. REVENUES; DEBTS; ASSETS; TAXATION

* * * * *

Exemption of public lands, etc.

125. No lands or property belonging to Canada or any Province shall be liable to Taxation.

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HYDRO AND POWER AUTHORITY ACT
[R.S.B.C. 1996] CHAPTER 212
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Definitions

1 In this Act:

"authority" means the British Columbia Hydro and Power Authority continued under this Act;

"commission" means the British Columbia Utilities Commission continued under the *Utilities Commission Act*;

"generation" means production by hydraulic, electrical, steam, internal combustion engine, gas, oil or by any other process;

"judge" means a justice of the Court of Appeal or a judge of the Supreme Court;

"owner"

(a) in relation to land, means a person registered in the books of a land title office as owner of land or of a charge on land, whether entitled to it in the person's own right or in a representative capacity or otherwise and includes a lessee in possession for a term of 3 years or

less and a person who is the owner, although unregistered, of an estate less than the fee simple granted by the Crown, and

(b) in relation to other property, includes a mortgagee, person entitled to a limited estate or interest and a guardian, executor, administrator or trustee in whom any property or interest in any property is vested;

"power" includes energy, light and heat however developed or produced, and includes electricity and natural, manufactured or mixed gas, or liquefied petroleum gas;

"power plant" or **"plant"** includes all land, water, rights to the use of water, buildings, works, machinery, installations, materials, devices, fittings, apparatus, appliances, offices, furniture and equipment, vehicles, tools, stores and supplies, including office stores and supplies, constructed, acquired or used or adapted, or that, in the opinion of the authority, might be used or adapted for or in connection with the generation or supply of power;

"power project" includes any charter, franchise, privilege or other right, or land, buildings, plant, machinery or equipment acquired, or proposed to be acquired, by a person with a view to the generation or supply of power, or any plans, surveys or data made or assembled with a view to the generation or supply of power;

"power site" includes any land, or any lake, river, stream, watercourse or body of water, water licence or privilege, or reservoir, dam, water storage, sluice, canal, raceway, tun-

nel or aqueduct that is used or that, in the opinion of the authority, might be used for or in connection with the generation or supply of power;

"supply" as a noun means reservation, transmission, distribution, capacity to provide, dealing in and sale; and as a verb has a corresponding meaning.

Authority continued

2 The corporation known as the British Columbia Hydro and Power Authority is continued, consisting of persons who are appointed as directors and who hold office as provided in this Act.

Agent of government

3 (1) The authority is for all its purposes an agent of the government and its powers may be exercised only as an agent of the government.

(2) The Minister of Finance and Corporate Relations is the fiscal agent of the authority.

(3) The authority, on behalf of the government, may contract in its corporate name without specific reference to the government.

Directors

4 (1) The Lieutenant Governor in Council appoints the directors of the authority who hold office during pleasure.

(2) The Lieutenant Governor in Council must appoint one or more of the directors to chair the authority.

(3) A chair or other director must be paid by the authority the salary, directors' fee and other remuneration the Lieutenant Governor in Council determines.

Powers of directors

5 The directors must manage the affairs of the authority or supervise the management of those affairs, and may

(a) exercise the powers conferred on them under this Act,

(b) exercise the powers of the authority on behalf of the authority, and

(c) delegate the exercise or performance of a power or duty conferred or imposed on them to anyone employed by the authority.

* * * * *

Executive committee

9 (1) The Lieutenant Governor in Council may appoint an executive management committee of the authority that is composed of not more than 5 directors, and that must, subject to the direction of the directors of the authority, manage the operations of the authority.

(2) The members of the executive management committee may be paid remuneration determined by the Lieutenant Governor in Council.

Appointment of employees

10 The authority may, without regard to the *Public Service Act*, appoint a secretary and executive officers, engineers, solicitors, accountants, employees, consultants and agents it thinks necessary for its business, and may define their duties, determine their compensation and provide a system of organization to establish responsibility and promote efficiency.

* * * * *

Powers

12 (1) Subject to the approval of the Lieutenant Governor in Council, which may be given by order of the Lieutenant Governor in Council, the authority has the power to do the following:

(a) generate, manufacture, distribute and supply power;

(b) develop power sites, power projects and power plants;

(c) act as a carrier of passengers and freight;

(d) flood and overflow land, purchase, otherwise acquire, accumulate and store water, raise or lower the level of rivers, lakes, streams and other bodies of water, and purchase and otherwise acquire water records and water privileges;

(e) manufacture and deal in all articles and things required for exercising the powers and duties of the authority;

(f) acquire, maintain, develop, replace, alter, administer, manage, operate and dispose of property;

(g) build, make, construct and establish every kind of structure, excavation or installation and install every kind of equipment or facility;

(h) acquire and protect, prolong and renew patents, patent rights, trade marks, designs, licences, franchises, concessions, and use, exercise, develop, manufacture under or grant licences or privileges in respect of those acquisitions and experiment with, test and improve patents, rights, inventions, discoveries, processes or information;

(i) require a person who owns, operates or controls a power site, power project or power plant to furnish to the authority, within the time specified in the demand, the particulars specified in the demand of the power site, power project or power plant;

(j) apply for and obtain and exercise any franchise, licence, right or privilege that may be conferred or obtained under any Act of Canada or of any province;

(k) acquire in accordance with a statute relating thereto the right to enter on roads, highways, railways, rivers, streams, waterways and other public places to erect on, over or under any of them anything for the generation or supply of power;

(*l*) integrate existing power plants;

(m) purchase power from or sell power to a firm or person;

(n) purchase, subscribe for, underwrite, guarantee the subscription of and otherwise acquire and deal in, sell and dispose of stock, shares, bonds, debentures, debenture stock, notes, securities and evidences of indebtedness, of any corporation and any stocks, funds and securities of any government, municipality or other authority;

(o) acquire or lease all or part of the property, assets and undertaking, and assume any of the obligations and liabilities of a firm or person carrying on or entitled to carry on any activities that the authority is authorized to carry on or that can be carried on incidental to or in connection with the exercise of the powers and duties of the authority;

(p) assume duties and obligations of a firm or person, reimburse others for payments made and liabilities incurred and indemnify others against liabilities;

(q) issue securities in exchange for obligations assumed by the authority or in exchange for securities of any other firm or person representing those obligations, and enter into any covenants or agreements considered necessary or desirable for that purpose;

(r) amalgamate in any manner with or enter into partnership with a firm or person;

(s) enter into a working arrangement with or cooperate with a firm or person carrying on or proposing to carry on an activity that the authority is empowered to carry on;

(t) by agreement or otherwise, take part in or take over all or part of the management, supervision or control of the business or operations of a firm or person;

(u) enter into agreements with a firm or person for any of the purposes of this Act;

(v) finance the operations of a corporation that has powers the exercise of which, in the opinion of the directors, would be beneficial to the authority;

(w) do immediately anything referred to in this section in contemplation of future requirements;

(x) do anything necessary or desirable for carrying out any of the powers and purposes in this section;

(y) exercise any of the powers in section 22 of the *Companies Act*, R.S.B.C. 1960, c. 67.

(2) If the authority

(a) acquires all of the property, assets or undertaking of a firm or person,

(b) assumes the obligations and liabilities of a firm or person,

(c) amalgamates in any manner with or enters into partnership with a firm or person, or

(d) takes over the management, supervision or control of the business of a firm or person,

the authority or the amalgamated corporation, if there is an amalgamation, may exercise and perform any power or duty conferred or imposed

on it or on that other firm or person under this or any other Act for and on behalf of that other firm or person, or the amalgamated corporation, or with respect to the property or undertaking of that other firm or person, or the amalgamated corporation, with or without exercising or performing any other resulting power or duty.

(3) If the authority amalgamates with or enters into partnership with a firm or person, this Act applies as if the amalgamated corporation or the partnership were the authority.

(4) The Lieutenant Governor in Council may, by order, prescribe the procedure to be followed in amalgamation of the authority with a firm or person.

(5) If the authority acquires all of the property, assets or undertaking of or amalgamates in any manner with or enters into partnership with a firm or person, then despite the *Land Title Act*, all of the interests of that firm or person registered in a land title office are deemed to be registered interests of the authority, or the amalgamated corporation, or the partnership, as the case may be, and the registrar must accordingly make all necessary amendments to the register, and the amendments constitute registration under the *Land Title Act* in favour of the authority, the amalgamated corporation or the partnership, as the case may be.

(6) The Lieutenant Governor in Council may make regulations necessary for carrying out subsection (5).

(7) Fees must not be paid for anything done under subsection (5) or (6).

(8) Nothing in this section relieves the authority from any requirement of the *Utilities Commis-*

sion Act that applies to the authority under section 32 (7).

(9) The Lieutenant Governor in Council, by order, may designate any agreement entered into or to be entered into by the authority that the Lieutenant Governor in Council considers relates to the provision of support services to or on behalf of the authority.

(10) For the purposes of subsection (9), "support services" means services that support or are ancillary to the activities of the authority from time to time, and includes services related to metering for, billing and collecting fees, charges, tariffs, rates and other compensation for electricity sold, delivered or provided by the authority, but does not include the production, generation, storage, transmission, sale, delivery or provision of electricity.

(11) Despite the common law and the provisions of this or any other enactment, if an agreement is designated under subsection (9),

(a) the authority is deemed to have, and to have always had, the power and capacity to enter into the agreement,

(b) the agreement and all actions of the authority taken in accordance with the provisions of the agreement are authorized, valid and deemed to be required for the public convenience and necessity,

(c) the authority is deemed to have, and to have always had, the power and capacity to carry out all of the obligations imposed under, and to exercise all of the rights, powers and privileges granted by, the agreement according to its terms,

(d) the agreement is binding on and enforceable by the authority, according to the agreement's terms, and

(e) subject to subsection (12), the authority is not required to obtain any approval, authorization, permit or order under the *Utilities Commission Act* in connection with the agreement or any actions taken in accordance with the terms of the agreement, and the commission must not prohibit the authority from taking any action that the authority is entitled or required to take under the terms of the agreement.

(12) Nothing in subsection (11)(e) precludes the commission from considering the costs incurred, or to be incurred, in relation to an agreement designated under subsection (9) when establishing the revenue requirements and setting the rates of the authority.

(13) Subsections (3) and (5) do not apply to any partnership created by, under or in furtherance of an agreement designated under subsection (9).

* * * * *

Expropriation

16 (1) The authority may, for any purpose related to the exercise of its powers,

(a) expropriate any property, power site, power project or power plant,

(b) enter, remain on, take possession of and use any property,

(c) on land that it expropriates,

(i) erect, make or place on the land any structure, installation, excavation or power plant, and

(ii) flood and overflow the land and accumulate and store water on it, and

(d) require and compel a person who generates or supplies power to enter into an agreement to supply to the authority as much of that power as the authority requires.

(2) If land is expropriated under subsection (1), the *Expropriation Act* applies.

(3) If the authority exercises a power under subsection (1) that does not constitute the expropriation of land requiring approval under the *Expropriation Act*, it must obtain the approval of the minister before the power is exercised.

(4) If the authority expropriates property under subsection (1) other than land, the authority must notify the Attorney General and, if required by the Attorney General, file a notice describing the property at a place designated by the Attorney General.

(5) Despite any other Act, the property referred to in subsection (3) that is expropriated vests in the authority free and clear of all encumbrances

(a) when the notice is filed under subsection (4), or

(b) if no filing is requested, when the Attorney General receives the notification under subsection (4).

(6) After property vests under subsection (5), the authority must serve on the owner of the property a notice containing a description of the property sufficient to identify it, together with a declaration of readiness to pay compensation in an amount to be agreed on or to be determined under subsection (9).

(7) If an owner is absent from British Columbia or is unknown or cannot be served, the Supreme Court may, on the application of the authority,

order that the notice under subsection (6) be published in a manner and for a time that the court thinks proper, and, on publication, the owner is deemed to have been served with the notice.

(8) If the authority exercises its powers under subsection (1), other than in relation to the expropriation of land, it must pay compensation for

(a) the interest, property, matter or thing expropriated, entered on or used, and

(b) damages to any property that directly result from the expropriation, entry or use.

(9) If the authority and a person entitled to compensation fail to agree on the amount of compensation payable under subsection (8), the amount must be determined by the Expropriation Compensation Board established under the *Expropriation Act*.

Compulsory supply of power

17 (1) If the authority is unable to agree with a person required or compelled to supply power under section 16 (1) (d) on the amount of power available for the authority's use or the price to be paid for it or on any matter relating to supplying the power desired, the commission must, on application of either party, after a hearing, determine the amount of power, if any, to be supplied and the price to be paid for it, and also any other matter on which agreement has not been reached.

(2) A determination of the commission under subsection (1) is final.

* * * * *

Borrowing by authority

21 (1) Subject to the approval of the Lieutenant Governor in Council and within the borrowing limi-

tation set out in section 25, the authority, for any of the purposes of the authority, may

(a) borrow sums of money the authority thinks are required, and

(b) issue notes, bonds, debentures and other securities bearing interest at rates and payable as to principal and interest in currencies and at places and at times and in a manner the authority determines.

(2) The directors of the authority may, by resolution, delegate any of their powers or the powers of the authority under this section to any director or officer of the authority.

(3) A resolution under this section approved by the required number of directors by telex, telegraph, telephone or any other similar means of communication confirmed in writing or other graphic communication, is as valid and effectual as if it had been passed at a meeting of the directors properly called and constituted.

(4) The notes, bonds, debentures and other securities of the authority may be made redeemable in advance of maturity at times and at prices the directors of the authority determine at the time of the issue.

(5) For this section, the purposes of the authority, without limiting any other provision of this Act, include the following:

(a) payment, refunding, exchange or renewal of all or any part of a loan raised or securities issued by the authority, except to the extent that a sinking fund is available for the payment of the loan or securities, and a recital or declaration in the resolution or minutes of the authority authorizing the issue of securities as to the amount of any

sinking fund so available is conclusive evidence of the fact;

(b) payment of all or any part of a loan, liability or bonds, debentures or other securities, payment of which is guaranteed or assumed by the authority;

(c) payment of any other liability or indebtedness of the authority;

(d) carrying out any of the powers referred to in this Act, providing in whole or in part for expenditures of the authority made or to be made in connection with them, reimbursing the authority for any of those expenditures and repaying all or part of any temporary borrowings of the authority for any of those purposes;

(e) the exercise of a power, right, function or duty conferred or imposed on the authority by or under this or any other Act or law.

(6) The authority may borrow and may issue under subsection (1) in amounts that will realize the net sum required by the authority for its purposes, and a recital or declaration in the resolution or minutes of the authority authorizing the issue of securities to the effect that the issue of the authorized securities is being made for the purposes of the authority and that the amount is necessary to realize the net sum required for the purposes of the authority is conclusive evidence of the fact.

(7) Subject to the approval of the Lieutenant Governor in Council, on terms and conditions thought advisable, the authority may dispose of the notes, bonds, debentures and other securities of the authority, either at the par value of them or at less or more than the par value, and may charge, pledge, hypothecate, deposit or oth-

erwise deal with the securities as collateral security.

(8) Subject to the approval of the Lieutenant Governor in Council on terms and conditions thought advisable, the authority may exchange notes, bonds, debentures or other securities of the authority for securities of another corporation

(a) in an amount or amounts equal to or greater or smaller than the amount or amounts of the notes, bonds, debentures or other securities of the authority,

(b) bearing interest payable at the same or different time or times as the interest payable under the notes, bonds, debentures or other securities of the authority,

(c) bearing interest at the same or a greater or smaller rate as or than the interest payable under the notes, bonds, debentures or other securities of the authority,

(d) due on the same or on an earlier or later date as or than the notes, bonds, debentures or other securities of the authority, and

(e) callable whether or not the notes, bonds, debentures or other securities of the authority are callable and on the same or different terms and conditions as or than the notes, bonds, debentures or other securities of the authority if they are callable.

* * * * *

(10) The notes, bonds, debentures and other securities of the authority must be in a form determined by the directors of the authority or on behalf of the authority by the Minister of Finance and Corporate Relations as fiscal agent for the authority.

* * * * *

(14) Subject to the approval of the Lieutenant Governor in Council and within the borrowing limitation set out in section 25, the authority may also borrow by way of temporary loans from any person the sums on the terms, for the purposes and on the conditions the directors of the authority determine, by way of bank overdraft or line of credit, or by the pledging as security for the temporary loans of notes, bonds, debentures or other securities of the authority pending the sale of them or in place of selling them, or in whatever other manner the directors of the authority determine.

* * * * *

(16) The Minister of Finance and Corporate Relations, as fiscal agent of the authority, may arrange all details and do, transact and execute all deeds, matters and things that are required during the negotiation of a loan or for placing a loan.

(17) Money raised by the authority under this section must be paid by the authority into the fund established under section 27.

(18) The authority, except in the case of temporary loans of a term not exceeding 5 years and of issues of securities repayable in installments of principal, must set aside a sum that, together with interest compounded annually on it at a rate determined by the Lieutenant Governor in Council, would be sufficient, irrespective of the date or dates of maturity of the securities being issued, to provide a sinking fund for the repayment in full of any securities issued by the authority

(a) within a period not exceeding 50 years from the date of them, or

(b) in the case of securities issued by the authority under subsection (5)(a) other than for repaying or renewing a temporary loan in whole or in part, within a period not exceeding 50 years from the date of original issue of the securities being repaid, refunded or renewed.

* * * * *

(20) The sum referred to in subsection (18) must be paid to the Minister of Finance and Corporate Relations, who must

(a) act as trustee for the authority,

(b) establish one or more appropriate sinking fund trustee accounts, and

(c) subject to subsection (21), invest that sum and the interest earned on it in investments permitted for a trust fund under section 40 (4) of the *Financial Administration Act*.

* * * * *

Authorization to borrow from Canada Pension Plan

22 Despite anything in this Act, the authority may, in the bylaw or resolution under section 21, authorize the Minister of Finance and Corporate Relations or, with the concurrence of the Minister of Finance and Corporate Relations, authorize the Minister of Finance of Canada to determine any matter required to be determined under section 21 for

(a) borrowing money from the Canada Pension Plan Investment Fund established under the Canada Pension Plan, and

(b) issuing and selling to the Receiver General and Minister of Finance of Canada for the credit of the Canada Pension Plan Invest-

ment Fund debentures as security for the loans.

Guarantee of principal and interest

23 (1) The Lieutenant Governor in Council, for and on behalf of the government, may guarantee the payment of the principal and interest of and on any of the following:

(a) notes, bonds, securities, debentures, debenture stock, loans or obligations issued by the authority or the payment of which is assumed by the authority;

(b) notes, bonds, securities, debentures, debenture stock or loans issued by a firm or person if

(i) all of the property, assets or undertaking of the firm or person has been acquired by the authority,

(ii) the obligations and liabilities of the firm or person has been assumed by the authority,

(iii) the firm or person is amalgamated with the authority, or

(iv) the management, supervision or control of the business of the firm or person has been taken over by the authority.

* * * * *

Guarantees respecting leases

24 (1) The government may, on terms approved by the Lieutenant Governor in Council, guarantee payments of the authority under a lease made by or to the authority.

(2) The Lieutenant Governor in Council may authorize

(a) the Minister of Finance and Corporate Relations, or

(b) an officer of the Ministry of Finance and Corporate Relations,

to sign the guarantee on behalf of the government, and the signature of that person on the guarantee is conclusive proof that this section has been complied with.

(3) Money required to be paid by the government in respect of a guarantee given under this section must be paid out of the consolidated revenue fund without an appropriation other than this Act.

* * * * *

Examination and report by Comptroller General

28 (1) The Minister of Finance and Corporate Relations may direct the Comptroller General of British Columbia to examine and report to the Treasury Board on any or all of the financial and accounting operations of the authority.

(2) The accounts of the authority must at least once in every year, be audited and reported on by an auditor or auditors appointed by the Lieutenant Governor in Council, and the costs of the audit must be paid by the authority.

(3) The Lieutenant Governor in Council must appoint the auditors and the bankers of the authority, who hold office during pleasure.

Annual report

29 (1) The authority must make to the Lieutenant Governor in Council an annual report containing clear and comprehensive financial statements made up to March 31 last preceding.

(2) If the Legislature is then in session, the report must be laid before it at once, otherwise within 15 days after the opening of the next session.

(3) The *Financial Information Act* applies to the authority.

Liability of authority

30 (1) The authority may sue and be sued in its own corporate name for any right or obligation acquired or incurred by it on behalf of the government as if the right or obligation had been acquired or incurred on its own behalf and also in respect of any liabilities in tort to which it is made subject by this Act.

(2) The authority is liable in tort for the damages for which if it were a private person of full age and capacity it would be subject

(a) for torts committed by its servants or agents, and

(b) for a breach of duty that attaches to the ownership, occupation, possession or control of property.

(3) An action or other proceeding does not lie against the authority or against a servant or agent of the authority or against the government for

(a) any claim against the authority or a servant or agent of the authority if a pension or compensation has been paid or is payable out of the consolidated revenue fund or out of any funds administered by an agent of the government for the death, injury, damage or loss in respect of which the claim is made, or

(b) an act or omission of a servant or agent of the authority unless the act or omission would, apart from this section, have given rise to a cause of action in tort against that servant or agent or his or her personal representative.

(4) In all proceedings to which the authority is a party, the court may pronounce a judgment or

make an order or direction as to costs in favour of or against the authority.

Nuisance actions

31 Despite section 30, the authority is not liable in an action based on nuisance or on the rule in Rylands v. Fletcher, unless the authority was negligent.

Application of other statutes

32 (1) Despite any specific provision in any Act to the contrary, except as otherwise provided by or under this Act, the authority is not bound by any statute or statutory provision of British Columbia.

(2) The authority is an employer under the *Workers Compensation Act*.

(3) Money owing, payable or accruing due from the authority as salary or wages to any of its members or employees may be attached under the *Court Order Enforcement Act* the same as money owing, payable or accruing due from any person to the Crown, and for that purpose that Act applies to the authority.

(4) Money, as defined in section 25 of the *Family Maintenance Enforcement Act*, that is owing, payable or accruing due from the authority to any of its members or employees may be attached or garnished under section 15, 18 or 24 of that Act, and that Act applies to the authority.

(5) Service of all orders, notices and processes required to be served on the authority as garnishee or attachee must be effected by personal service on the secretary of the authority or by leaving the document or documents at the secretary's office.

(6) The Lieutenant Governor in Council may, by regulation, make applicable to the authority any statutory provision.

(7) The following Acts and provisions apply to the authority:

(a) the *Auditor General Act*;

(b) [Repealed 1998-30-93.]

(b.1) the *Budget Transparency and Accountability Act*;

(c) section 128 of the *Company Act*;

(d) [Repealed 2001-30-16.]

(e) the *Debtor Assistance Act*;

(f) [Repealed 2003-46-22.]

(g) the *Employment Standards Act*;

(h) the *Environmental Assessment Act*;

(i) the *Environment Management Act*;

(j) the *Expropriation Act*;

(k) sections 4.1, 52 to 55, 77 and 79 of the *Financial Administration Act*;

(*l*) the *Forest Act*;

(m) the *Geothermal Resources Act*;

(m.1) the *Greater Vancouver Transportation Authority Act*;

(n) the *Heritage Conservation Act*;

(o) the *Human Rights Code*;

(p) the *Insurance (Motor Vehicle) Act*;

(q) the *Labour Relations Code*;

(r) the *Limitation Act*;

(s) the *Ombudsman Act*;

(s.1) the *Pension Benefits Standards Act*;

(t) the *Pesticide Control Act*;

(u) the *Petroleum and Natural Gas Act*;

(v) the *Property Transfer Tax Act*;

(v.1) the *Public Sector Employers Act*;

(w) sections 3 and 5 of the *Railway Act*;

(x) the *Utilities Commission Act*, except sections 50, 51 (c), 52, 57 (2), 95 and 98;

(y) the *Waste Management Act*;

(z) sections 1 to 26, 29, 31 to 42, 44, 45, 46, except subsection (2) (c), and 47 to 49 of the *Water Act*.

(8) The *Transmission Corporation Act* applies to the authority in the manner and to the extent contemplated by that Act.

* * * * *

Taxation

34 (1) With the approval of the Lieutenant Governor in Council, the authority may make annual grants to the Surveyor of Taxes with respect to a rural area and to municipalities and other local governments within the territorial jurisdiction of which the authority generates, transmits or sells electric power or otherwise carries on business.

(2) Except as provided by order of the Lieutenant Governor in Council, land and improvements of the authority as defined by the *School Act* must be included for the calculation of Provincial grants to school districts and the net taxable value of land and improvements of the authority as defined in the *School Act* must be assessed and taxed in each year.

(3) An order of the Lieutenant Governor in Council under subsection (2) may be made for any period, whether before, on or after, or partly before and partly after April 6, 1968.

Directives

35 Despite the *Utilities Commission Act*, the Lieutenant Governor in Council may issue directives directing the authority in a fiscal year to pay to the government an amount specified in the directive and may issue directives directing the authority in a fiscal year to pay to the persons constituting one or more classes of the authority's past or present customers an amount specified in the directive.

Pension arrangements

36 (1) With the approval of the Lieutenant Governor in Council, the authority may

(a) establish and maintain a fund for the payment of superannuation allowances or allowances on the death or disability of directors and employees,

(b) make regulations providing for

(i) contributions to the fund by the authority and directors and employees,

(ii) the terms and conditions on which superannuation allowances or other allowances may be payable, and

(iii) the persons to whom allowances may be paid,

(c) make regulations providing for

(i) the continuation or amendment of existing superannuation or retirement plans or arrangements or for the integration of former plans with any plan established under this section,

(ii) meeting or removing any difficulty arising out of the concurrent administration of the plan established under this section and the plan or plans in effect

at the time that subparagraph (i) becomes effective, and

(iii) preserving and giving effect to the rights of all persons accrued or accruing under former plans,

and the regulations may be applicable generally or to particular cases, and

(d) [Repealed 1999-44-61.]

(e) amend any regulation made under this section.

(2) Despite this or any other Act, the matters respecting the establishment and maintenance of a fund for the payment of superannuation allowances or allowances on the death or disability of directors or employees under subsection (1), including

(a) contributions to the fund by the authority and directors and employees,

(b) the terms and conditions on which superannuation allowances or other allowances may be payable, and

(c) the persons to whom allowances may be paid,

must not be the subject of a collective agreement between the authority and its employees.

(3) Despite subsection (1), the regulations for a superannuation plan may provide for payment to the authority from the amount standing to the credit of a contributor or former contributor sums necessary to make good any default in accounting for any money belonging to the authority that was entrusted to the contributor or any debt that may be due by the contributor to the authority.

(4) If a contributor dies while in the service of the authority, a payment from the fund to a person

nominated by the contributor or to the contributor's spouse is not subject to the control of the creditors of the contributor and does not form part of the contributor's estate.

(5) Despite any requirement or agreements existing and applicable to any superannuation or retirement plan or scheme for the benefit of any officers or employees of the authority or corporation formed by amalgamation under this Act or a partnership formed under this Act, the Lieutenant Governor in Council may rescind the appointment of any trustee under any plan or scheme and appoint a trustee or trustees in place of that trustee.

(6) The trustee appointed by the Lieutenant Governor in Council under subsection (5) need not be a trust company.

* * * * *

Power to make regulations

38 The Lieutenant Governor in Council may make regulations referred to in section 41 of the *Interpretation Act*.

POWER FOR JOBS DEVELOPMENT ACT
CHAPTER 51

Assented to July 30, 1997

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HER MAJESTY, by and with the advice and consent of the Legislative Assembly of the Province of British Columbia, enacts as follows:

PART 1 — INTRODUCTORY PROVISIONS

Definitions

1 In this Act:

"administrator" means an officer or employee of the ministry or of a government body, within the meaning of the Financial Administration Act, designated as the Power for Jobs Administrator by the minister;

"authority" means the British Columbia Hydro and Power Authority and includes a subsidiary of the British Columbia Hydro and Power Authority;

"business" means an individual, partnership, corporation or other organization carrying on, in British Columbia, a trade, enterprise, calling or undertaking or preparing to do so;

"Canadian entitlement" means the Canadian share of downstream power benefits as determined under Article VII of the Treaty between Canada and the United States of America relating to Cooperative Development of the Water Resources of the Columbia River Basin;

"customer" means a business that, for the operation of a plant or for any other economic activity, purchases electricity in an amount that exceeds 35 kW annually;

"development power rate" means

(a) a rate that is payable to the authority or the government by a business in respect of which an order is made under section 3 for one or both of surplus electricity and the delivery of that surplus electricity, or

(b) a rate that is payable to a public utility or to a municipality or regional district by a business in respect of which an order is made under section 6 for one or both of

surplus electricity and the delivery of that surplus electricity;

"Job Protection Commissioner" means the Job Protection Commissioner appointed under the *Job Protection Act*;

"public utility" has the same meaning as in the *Utilities Commission Act*;

"rate" includes

(a) a general, individual or joint rate, fare, toll, charge, rental or other compensation of a public utility or of the government,

(b) a rule, practice, measurement, classification or contract of a public utility, the government or a corporation relating to a rate, and

(c) a schedule or tariff respecting a rate;

"supply" includes wheeling by the authority of surplus electricity that is a portion of the Canadian entitlement;

"surplus electricity" means electricity that is one or both of the following:

(a) surplus to the authority's requirements to supply

(i) customers in the authority's service area, and

(ii) electricity in respect of which removal is permitted under the *Utilities Commission Act* and that is either

(A) produced at a hydroelectric generating facility owned by the authority, or

(B) purchased by the authority from another source;

(b) a portion of the Canadian entitlement that the Lieutenant Governor in Council de-

termines may be made available from time to time for the purpose of this Act.

Purpose

2 The purpose of this Act is to help ensure that British Columbia's electric power resources contribute to the creation and retention of jobs in British Columbia and to regional economic development.

PART 2 — PROVISION OF ELECTRICAL POWER

Development power rates

3 On application by any business and despite the rate charged by the authority for the supply of electricity to the business, the Lieutenant Governor in Council may order that surplus electricity be supplied to, and a development power rate applies to some or all of the supply of electricity to, that business if the application is consistent with the criteria prescribed under section 15(2)(a) and if

(a) the business proposes to construct or expand a plant or to expand operations in the authority's service area, the proposed plant or expansion will have the effect of expanding employment and the business would, after completion of the plant or expansion, fall within the definition of "customer", or

(b) the business is a customer that requires financial assistance to maintain

(i) the ongoing viability of the business's plant or operations, and

(ii) the continued employment of persons.

Considerations of Lieutenant Governor in Council

4 Before making an order under section 3 or 6 in respect of a business, the Lieutenant Governor in Council may consider any recommendations made

by the administrator in relation to the business' application.

Terms of orders

5 An order in relation to a business under section 3 or 6 may contain terms that the Lieutenant Governor in Council considers advisable, including, without limitation, terms

(a) specifying the amount of surplus electricity that is to be supplied to the business and the amount of that surplus electricity that is to be supplied at a development power rate,

(b) setting the development power rate for the surplus electricity to be supplied to the business, and

(c) specifying the period or periods during which the surplus electricity is to be supplied or the development power rate is to be applicable.

Customers outside the area of the authority

6 (1) On application by a business, the Lieutenant Governor in Council may, by order, authorize the authority to dispose of surplus electricity to another public utility to enable the public utility to supply electricity to the business for the purpose of a plant or operations if

(a) the plant is or the operations are located in the service area of that public utility, and

(b) the business would be eligible for an order under section 3 were the plant or operations located in the service area of the authority.

(2) If electricity is supplied to a public utility under subsection (1), the Lieutenant Governor in Council may order that the public utility supply some or all of the electricity to that business at a development power rate.

(3) If a municipality or regional district supplies electricity to customers within its own boundaries, an order may be made under subsections (1) and (2) in respect of that service as though the municipality or regional district were a public utility referred to in subsection (1).

Effect of development power rates

7 (1) If there is a conflict between the rates of the authority and an order made under section 3 or 6, the order prevails.

(2) A development power rate that is payable in accordance with the terms of an order made under section 3 or 6 is applicable, despite sections 61(3) and 63 and Part 5 of the *Utilities Commission Act*.

(3) The British Columbia Utilities Commission does not have jurisdiction under section 58(1) and (2), 59(4), 64(1) or Part 5 of the *Utilities Commission Act* in respect of a development power rate.

(4) A development power rate

(a) is lawful, enforceable and collectable, and

(b) is not a rate to which section 59(1) of the *Utilities Commission Act* applies.

(5) The government, the authority and any public utility are not subject to Part 3 or Part 5 of the *Utilities Commission Act* in relation to any matter arising out of the supply of electricity with respect to which an order has been made under section 3 or 6 of this Act, unless the Lieutenant Governor in Council orders that a provision of Part 3 or Part 5 of the *Utilities Commission Act* that the Lieutenant Governor in Council specifies applies with respect to that matter.

(6) If there is any conflict or inconsistency between

(a) an order made under section 6(1) and (2) for the purposes of section 6(3), and

(b) either

(i) section 363 *(imposition of fees and charges)* of the *Local Government Act*, or any bylaw made under that section, or

(ii) section 194 *(municipal fees)* or 200 *(parcel tax bylaw)* of the *Community Charter*, or any bylaw made under those sections,

the order made under section 6 (1) and (2) prevails.

(7) The wholesale transmission rates otherwise payable by those customers of the authority that transmit power under published wholesale transmission rates must not be altered to compensate for

(a) an order made under section 3 or 6, or

(b) any reduction in the wholesale transmission revenue requirement resulting from that order.

Application to the administrator

8 A business wishing to be considered for an order under section 3 or 6 must apply to the administrator for that order.

PART 3 — POWER FOR JOBS ADMINISTRATOR

Administrator's mandate

9 (1) If the Lieutenant Governor in Council determines that surplus electricity may be made available under this Act, the minister may notify the administrator of

(a) the projected amount and duration of supply of that surplus electricity,

(b) any criteria, additional to the application evaluation criteria prescribed under section 15(2)(a), that the Lieutenant Governor in

Council intends to use in assessing applications for that surplus electricity, and

(c) the manner in which the assessment required under subsection (2) is to be completed.

(2) After receiving notification under subsection (1), the administrator must assess if and to which businesses the surplus electricity should be provided.

(3) In conducting an assessment under subsection (2), the administrator,

(a) if notified by the minister under subsection (1)(c) as to the manner in which the assessment is to be completed, must conduct the assessment in accordance with that manner, or

(b) in any other case, may use any method that the administrator considers advisable to effect the assessment, including, without limitation, any one or more of the following:

(i) advertising the amount of surplus electricity that may be made available by the Lieutenant Governor in Council;

(ii) preparing a request for proposals and distributing it to any businesses that the administrator considers appropriate;

(iii) using auction processes;

(iv) negotiating with businesses;

(v) conducting financial or other evaluations of solicited and unsolicited proposals.

(4) If the administrator issues a request for proposals in respect of surplus electricity, the administrator must include in the request for proposals the ad-

ditional criteria, if any, referred to in subsection (1)(b) that the Lieutenant Governor in Council intends to use in assessing proposals or other applications for that surplus electricity.

(5) After receiving a proposal or other application for the provision to a business of surplus electricity under this Act, whether or not that application is provided in response to an action of the Lieutenant Governor in Council or the administrator, the administrator must make recommendations to the minister as to whether the application should be accepted and may suggest terms that the administrator considers should be imposed on the supply of that surplus electricity.

(6) If a proposal or other application in respect of which recommendations are made under subsection (5) appears to the minister to be consistent with the criteria to be applied by the Lieutenant Governor in Council in assessing the application, the minister is to provide the application and the recommendations of the administrator to the Lieutenant Governor in Council for assessment.

(7) The minister is to notify the administrator as to the disposition of the application and the administrator must notify the applicant as to that disposition.

(8) The administrator may, when invited to do so by the Job Protection Commissioner and authorized to do so by the minister, consult with the Job Protection Commissioner in respect of any economic plan made or proposed under the *Job Protection Act* and may, if it appears appropriate to do so, recommend to the Lieutenant Governor in Council that an order be made under section 3 or 6 of this Act in order to assist in the economic plan.

Considerations administrator is to consider

10 In carrying out the mandate under section 9, the administrator is to give due consideration to economic, environmental and societal interests including, without limitation,

(a) any new employment relationships that may be established as a result of this Act,

(b) government objectives with respect to employment equity,

(c) the economic importance of a business to British Columbia or to a region or locality within British Columbia, and

(d) the purpose of this Act.

Confidentiality

11 The administrator and every other person who has custody of or access to records or information provided by a business in a proposal or other application provided to the administrator under this Act must not disclose the records or information to any person except insofar as disclosure is

(a) necessary for the purposes of this Act,

(b) required by a court proceeding relating to this Act, or

(c) for the purposes of the compilation and publication of statistical information by the government.

No testimony in civil action

12 The administrator is not, in a civil action to which the administrator is not a party, required to testify or produce evidence about records or information obtained in the discharge of duties under this Act.

Report to Lieutenant Governor in Council

13 The administrator, in each year, must make to the Lieutenant Governor in Council a report of

the activities of the administrator for the preceding calendar year.

PART 4 — GENERAL PROVISIONS

Offence

14 (1) A person who contravenes section 11 commits an offence.

(2) Section 5 of the *Offence Act* does not apply in respect of this Act or the regulations.

Power to make regulations

15 (1) The Lieutenant Governor in Council may make regulations referred to in section 41 of the *Interpretation Act*.

(2) Without limiting subsection (1), the Lieutenant Governor in Council may make regulations

(a) respecting the criteria that may be applied by the Lieutenant Governor in Council in assessing a proposal or other application for an order under section 3 or 6, including, without limitation, the tests that may be applied by the Lieutenant Governor in Council in determining if and to what extent an order may be made under those sections, and

(b) prescribing the information that must be contained in a proposal or other application under section 3 or 6.

Commencement

16 This Act comes into force by regulation of the Lieutenant Governor in Council.

PROVINCE OF BRITISH COLUMBIA
ORDER OF THE LIEUTENANT GOVERNOR IN COUNCIL

Order in Council No. 494 *Approved and Ordered March 30, 2000*

/s/ [Illegible]
Administrator

Executive Council Chambers, Victoria

On the recommendation of the undersigned, the Administrator, by and with the advice and consent of the Executive Council, orders that the Special Directive No. 4 attached to this order is issued to the British Columbia Hydro and Power Authority.

/s/ [Illegible]

Minister of Energy and Mines and Minister Responsible for Northern Development

/s/ [Illegible]

Presiding Member of the Executive Council

(This part is for administrative purposes only and is not part of the Order)

Authority under which Order is made:

Act and section: - *Hydro and Power Authority Act*, s. 35

Other (specify): -

March 21, 2000 496/2000/13

SPECIAL DIRECTIVE NO. 4 TO THE BRITISH COLUMBIA HYDRO AND POWER AUTHORITY

Application

1 This Special Directive is issued by the Lieutenant Governor in Council to the British Columbia Hydro and Power Authority ("B.C. Hydro") under authority of section 35 of the *Hydro and Power Authority Act* (the "Act") as it pertains to annual payments to the provincial government of an amount specified in this Special Directive.

Return on public investment

2 For the purpose of this Directive only, the following definitions shall apply:

"Commission" means the British Columbia Utilities Commission constituted under the *Utilities Commission Act*;

"debt" means the sum of revolving borrowings, bonds, notes and debentures, net of related sinking funds, temporary investments, term debentures receivable and repurchased debt, at the end of the financial year;

"distributable surplus" means consolidated net income from all sources including electricity trade income as computed by B.C. Hydro according to generally accepted accounting principles and confirmed by B.C. Hydro's external auditors,

(a) after any rate stabilization account transfers pursuant to paragraphs 3 and 4 and before any deduction for any amounts paid or payable in accordance with a directive issued under section 35 of the *Hydro Power and Authority Act*, and

(b) less interest during construction adjusted for depreciation to prevent double counting;

"equity" means the sum of retained earnings and deferred credits, at the end of the financial year;

"deferred credits" means the sum of the rate stabilization account, deferred revenue, contributions arising from the Columbia River Treaty and contributions in aid of construction at the end of the financial year.

3 If the consolidated net income, before any rate stabilization account transfers, is less than the amount needed by B.C. Hydro to achieve an annual rate of return on equity pursuant to Special Directive No. 8 to the Commission, then the consolidated net income shall be increased accordingly by an appropriate transfer from the rate stabilization account, provided,

(a) there is a positive balance in the rate stabilization account before the transfer,

(b) there is a zero or positive balance in the rate stabilization account after the transfer, and

(c) the debt/equity ratio of B.C. Hydro after the transfer is not greater than 80:20.

4 If the consolidated net income, before any rate stabilization account transfers, is greater than the amount needed by B.C. Hydro to achieve an annual rate of return on equity pursuant to Special Directive No. 8 to the Commission, then the consolidated net income shall be decreased accordingly by an appropriate transfer to the rate stabilization account.

5 On or before June 30 of each year, the B.C. Hydro Board of Directors shall confirm a payment to the

provincial government (the "payment") for the previous financial year as determined below.

6 The payment shall equal 85 percent of the distributable surplus for the financial year provided the debt/equity ratio of B.C. Hydro after deducting the payment is not greater than 80:20. If the payment would result in the debt/equity ratio exceeding 80:20, then the payment shall be reduced to the extent necessary to maintain the debt/equity ratio at 80:20 after deducting the payment.

7 The payment determined by paragraph 6 shall be paid into the provincial government's consolidated revenue fund by no later than June 30 each year.

8 This directive is effective for the financial year ending March 31, 2000, and all subsequent financial years.

Revocation of Special Directive No. 2

9 This Special Directive revokes and replaces Special Directive No. 2 dated November 13, 1992.

B.C. Reg. 71/98, deposited March 16, 1998, pursuant to the **UTILITIES COMMISSION ACT** [Section 3.1]. Order in Council 1684/92, approved and ordered November 13, 1992.

On the recommendation of the undersigned, the Lieutenant Governor, by and with the advice and consent of the Executive Council, orders that

1. The Special Direction No. 8 attached to this order is issued to the British Columbia Utilities Commission, and

2. Special Direction No. 3 of October 5, 1989 to the British Columbia Utilities Commission is revoked. — A. EDWARDS, *Minister of Energy, Mines and Petroleum Resources*; M. HARCOURT, *Presiding Member of the Executive Council.*

SPECIAL DIRECTION No. 8

TO THE BRITISH COLUMBIA UTILITIES COMMISSION

Application

1. This Special Direction is issued by the Lieutenant Governor in Council to the British Columbia Utilities Commission (the "Commission") under authority of Section 3.1 of the *Utilities Commission Act* (the "Act") with respect to the exercise of the Commission's powers and functions as they apply to the British Columbia Hydro and Power Authority ("B.C. Hydro").

Definitions

2. For the purpose of this Special Direction only, the following definitions shall apply:

(a) **"debt"** means the sum of revolving borrowings, bonds, notes and debentures, net of related sinking funds, temporary investments, term debentures receivable and repurchased debt, at the end of the financial year.

(b) **"deferred credits"** means the sum of the Rate Stabilization Account, deferred revenue, contributions arising from the Columbia River Treaty and contributions in aid of construction.

(c) **"equity"** means the sum of retained earnings and deferred credits, at the end of the financial year.

(d) **"total invested capital"** means debt plus equity, at the end of the financial year.

Conservation and Efficient Electricity Use

3. In designing B.C. Hydro electricity rates, the Commission shall ensure that those rates contribute to conservation and efficient electricity use by reflecting the total cost of new sources of electricity supply, and those costs shall be evaluated using a cost of capital consistent with that earned on a pre-income tax basis by the most comparable investor-owned energy utility regulated under the Act.

Basis for Establishing Revenue Requirements

4. In order to determine an appropriate basis for establishing B.C. Hydro revenue requirements and a fair and reasonable return for B.C. Hydro comparable to, and competitive with, returns earned on total invested capital by investor-owned utilities, the Commission must allow B.C. Hydro to generate sufficient revenues in each financial year to:

(a) sustain an operating and capital regime that continues to provide a quality and reliable electricity service;

(b) meet other expenses reasonably incurred in accordance with government policy directives;

(c) meet all debt service, tax, and other financial obligations; and,

(d) achieve an annual rate of return on equity equal to that allowed on a pre-income tax basis by the most comparable investor-owned energy utility regulated under the Act.

5. The return on equity in paragraph 4(d) must be calculated using consolidated operating income from all sources before any Rate Stabilization Account transfers, where projections of consolidated operating income include an amount of electricity trade income consistent with the Commission's forecast of annual net export revenue under average water conditions, as contained in the Commission's report to the Lieutenant Governor in Council dated June 30, 1992, as amended, on B.C. Hydro's Energy Removal Certificate application.

Smooth, Stable and Predictable Rate Increases

6.1 Notwithstanding paragraph 4(d), in setting B.C. Hydro electricity rates, the Commission shall ensure that rates are smooth, stable and predictable.

6.2 Smooth, stable and predictable rates for the purpose of setting B.C. Hydro electricity rates means that, with the exception of pass through items pursuant to Section 67(4) of the Act, general electricity rate increases shall not exceed 1 percentage point above the rate of inflation for the remainder of the 1992/93 financial year and shall not exceed 2 percentage points above the projected rate of inflation on a year over year basis thereafter.

6.3 For the purpose of implementing rate design or of closing rates, individual electricity rate increases may exceed the limits set out in paragraph 6.2.

6.4 The rate of inflation in paragraph 6.2 means the change in the average level of the British Columbia consumer price index during the most recent three month period for which published statistics are available prior to B.C. Hydro's rate application fil-

ing, compared to the average level of the British Columbia consumer price index during the same three month period a year earlier, and published statistics shall mean those published by Statistics Canada.

6.5 The projected rate of inflation in paragraph 6.2 means the provincial Ministry of Finance and Corporate Relations' latest available forecast published prior to B.C. Hydro's rate application filing of future year over year changes in the average level of the British Columbia consumer price index.

Fair, Just and Reasonable Rates

7.1 In setting B.C. Hydro electricity rates the Commission shall ensure that rates are fair, just and reasonable.

7.2 Notwithstanding Part 3 of the Act or any previous decision of the Commission, fair, just and reasonable rates for the purpose of setting B.C. Hydro electricity rates means rates set in accordance with this Special Direction.

Return on Public Investment

8. Electricity rates set by the Commission in accordance with this Special Direction may generate annual distributable surpluses for B.C. Hydro. These surpluses shall only be calculated and allocated in a manner specified by the Lieutenant Governor in Council pursuant to Section 54.1(a) of the *Hydro and Power Authority Act.*

This Special Direction revokes and replaces Special Direction No. 3 of October 5, 1989.

B.C. Reg. 72/98, deposited March 16, 1998, pursuant to the **UTILITIES COMMISSION ACT** [Section 3(2)]. Order in Council 1279/97, approved and ordered November 25, 1997.

On the recommendation of the undersigned, the Administrator, by and with the advice and consent of the Executive Council, orders that Special Direction No. 8 of November 13, 1992, issued to the British Columbia Utilities Commission, is amended as set out in the attached Schedule. — D. MILLER, *Minister of Employment and Investment*; G. CLARK, *Presiding Member of the Executive Council.*

SCHEDULE

1. Section 1 of Special Direction No. 8 of November 13, 1992, issued to the British Columbia Utilities Commission, is amended by striking out "as they apply to" and substituting "in regulating and fixing rates for".

2. Section 2 is amended by adding the following paragraph:

   (c.1) "government policy directive" means a directive in writing to B.C. Hydro from the minister charged with the administration of the *Hydro and Power Authority Act*;

3. Section 4 is amended

   (a) by striking out "In order to determine an appropriate basis for establishing B.C. Hydro revenue requirements and a fair and reasonable return for B.C. Hydro comparable to, and competitive with, returns earned on total invested capital by investor-owned utilities, the" and substituting "The", and

   (b) by repealing paragraph (b) and substituting the following:

(b) meet other expenses reasonably incurred in accordance with government policy directives including, but not limited to,

(i) directives for the construction or operation of a plant or system, or an extension to either of them, by B.C. Hydro, and

(ii) directives that B.C. Hydro enter into contracts.

4. The following section is added:

Government policy directives

9. The Commission must determine any matter respecting B.C Hydro in a manner that permits B.C. Hydro to undertake any construction, enter into any contract or modify its rates in a manner that complies with any government policy directive.

B.C. Reg. 73/98, deposited March 16, 1998, pursuant to the **UTILITIES COMMISSION ACT** [Section 3]. Order in Council 316/98, approved and ordered March 13, 1998.

On the recommendation of the undersigned, the Lieutenant Governor, by and with the advice and consent of the Executive Council, orders that Special Direction No. 8 of November 13, 1992 to the British Columbia Utilities Commission is amended as set out in Schedule to this order. — M. FARNWORTH, *Minister of Employment and Investment and Minister Responsible for Housing*; J.K. MACPHAIL, *Presiding Member of the Executive Council.*

SCHEDULE

1. Sections 1 and 2 of Special Direction No. 8 of November 13, 1992, issued to the British Columbia Utilities Commission, are repealed and the following substituted:

Definitions

1. In this Special Direction:

"Act" means the *Utilities Commission Act*;

"B.C. Hydro" means the British Columbia Hydro and Power Authority;

"Commission" means the British Columbia Utilities Commission;

"debt" means the sum of revolving borrowings, bonds, notes and debentures, net of related sinking funds, temporary investments, term debentures receivable and repurchased debt, at the end of the financial year;

"deferred credits" means the sum of the Rate Stabilization Account, deferred revenue, contributions arising from the Columbia River Treaty and contributions in aid of construction;

"equity" means the sum of retained earnings and deferred credits, at the end of the financial year;

"government policy directive" means a directive in writing to B.C. Hydro from the minister charged with the administration of the *Hydro and Power Authority Act*;

"total invested capital" means debt plus equity, at the end of the financial year.

Application

2. This Special Direction is issued to the Commission under section 3 of the *Utilities Commission Act*.

2. Section 4 is amended by striking out "The commission must allow B.C. Hydro to generate" and substituting "In determining whether the rates of B.C. Hydro are sufficient to yield a fair and reasonable compensation for the services provided by it, or a fair and reasonable return on the appraised value of its property, the Commission must ensure the rates permit B.C Hydro to collect".

3. Section 6.2 is amended by striking out "Section 67(4)" and substituting "section 61(4)".

4. Section 7.2 is repealed.

5. Section 8 is amended by striking out "Section 54.1(a)" and substituting "section 35".

6. Section 9 is repealed.

B.C. Reg. 119/2000, deposited March 31, 2000, pursuant to the **UTILITIES COMMISSION ACT** [Section 3]. Order in Council 493/2000, approved and ordered March 30, 2000.

On the recommendation of the undersigned, the Administrator, by and with the advice and consent of the Executive Council, orders that B.C. Reg. 71/98, Special Direction No. 8 to the British Columbia Utilities Commission, is amended as set out in the Schedule to this order. — G. WILSON, *Minster of Employment and Investment*; U. DOSANJH, *Presiding Member of the Executive Council.*

SCHEDULE

1. The definition of "deferred credits" in section 1 of B.C. Reg. 71/98, Special Direction No. 8 to the British Columbia Utilities Commission, is amended by striking out "construction;" and substituting "construction at the end of the financial year,".

2. Section 5 is repealed and the following substituted:

Calculation of return on equity

5 (1) The return on equity in paragraph (4)(d) must be calculated using consolidated net income from all sources,

(a) where projections of consolidated net income include an amount of electricity trade income consistent with the Commission's forecast of annual net export revenue under average water conditions, as contained in the Commission's report to the Lieutenant Governor in Council dated June 30, 1992, as amended on B.C. Hydro's Energy Removal Certificate application, and

(b) where projected consolidated net income, before any rate stabilization account

transfers, is less than the amount needed by B.C. Hydro to achieve an annual rate of return on equity pursuant to paragraph 4(d), an allowance for an appropriate transfer from the rate stabilization account provided

(i) there is projected to be a positive balance in the rate stabilization account before the transfer,

(ii) there is projected to be a zero or positive balance in the rate stabilization account after the transfer, and

(iii) the debt/equity ration of B.C. Hydro after the transfer is not greater than 80:20.

Supreme Court of the United States
Office of the Clerk
Washington, DC 20543-0001

WILLIAM K. SUTER
Clerk of the Court
(202) 479-3011

May 23, 2005

Mr. David C. Frederick
Kellogg Huber Hansen
Todd, Evans & Figel, P.L.L.C.
1615 M Street, N.W.
Suite 400
Washington, DC 20036

Re: Powerex Corp.
v. Reliant Energy Services, Inc., et al.
Application No. 04A985

Dear Mr. Frederick:

The application for an extension of time within which to file a petition for a writ of certiorari in the above-entitled case has been presented to Justice O'Connor, who on May 23, 2005 extended the time to and including July 1, 2005.

This letter has been sent to those designated on the attached notification list.

Sincerely,

William K. Suter, Clerk
by
/s/ RUTH JONES
Ruth Jones
Case Analyst

[attached notification list omitted]

Supreme Court of the United States
Office of the Clerk
Washington, DC 20543-0001

WILLIAM K. SUTER
Clerk of the Court
(202) 479-3011

June 22, 2005

Mr. David C. Frederick
Kellogg Huber Hansen
Todd, Evans & Figel, P.L.L.C.
1615 M Street, N.W.
Suite 400
Washington, DC 20036

Re: Powerex Corp.
v. Reliant Energy Services, Inc., et al.
Application No. 04A985

Dear Mr. Frederick:

The application for a further extension of time in the above-entitled case has been presented to Justice O'Connor, who on June 22, 2005 extended the time to and including July 15, 2005.

This letter has been sent to those designated on the attached notification list.

Sincerely,

William K. Suter, Clerk
by
/s/ RUTH JONES
Ruth Jones
Case Analyst

[attached notification list omitted]